COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1993-01
Bill No.: SB 444
Subject: Tax Incentives; Taxation and Revenue - Income; Mortgages and Deeds
Type: Original
Date: February 27, 2017

Bill Summary: This proposal would create a First-Time Home Buyer Savings Account Act and a corresponding income tax deduction for contributions to those accounts.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	($65,146)	(Could exceed $1,000,000)	(Could exceed $1,000,000)
Total Estimated Net Effect on General Revenue	**($65,146)**	**(Could exceed $1,000,000)**	**(Could exceed $1,000,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Oversight was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

Officials from the **Office of Administration - Division of Budget and Planning** (**B&P**) assume this proposal would create a tax deduction, beginning with tax year 2018, for first time homeowners who contribute to a first-time home buyer savings account. The deduction would be equal to half of qualifying contributions and only available to individuals who have never owned a home. The proposal includes a cap on the deduction of $8,000 for individuals and $16,000 for married filing-joint taxpayers.

B&P officials provided data from the MO Realtor's Association indicating there were 6,163 homes sold in Missouri during 2016 with a median price of $149,000. Further, information from the National Realtor's Association indicated 38% of all home buyers in the West/North/Central region of the U.S. have never owned their own homes, the typical down payment is approximately 10% of the purchase price, and 63% of all buyers are married couples. Using the above information, B&P officials estimated there would be $17.9 million in total eligible contributions. However, since deductions do not reduce revenues on a dollar for dollar basis, B&P officials estimated this proposal would reduce Total State Revenue and General Revenue by approximately $1.1 million per year, beginning in FY 2019.

Oversight notes the B&P calculation could be summarized as follows:

Homes sold in Missouri		6,163
Average price of a home		$149,000
Total indicated sales	(6,163 x $149,000)	$918,287,000
38% Sales to first time buyers	($918,287,000 x 38%)	$348,949,060
10% Down payment	($348,949,060 x 10%)	$34,894,906
50% Indicated deductions	($34,894,906 x 50%)	$17,447,453
6% Indicated revenue reduction	($17,447,453 x 6%)	$1,046,847

ASSUMPTION (continued)

Oversight also notes the B&P calculation of revenue reduction would be based on every eligible home buyer being able and willing to make deposits in a designated savings account. The deduction would also be available to family members in place of a nondeductible gift to the home buyers. Oversight will assume the revenue reduction could be more than $1 million per year since it is available to more taxpayers than the estimated number of home buyers.

Oversight will include a revenue reduction beginning in FY 2019 when 2018 tax returns are filed. Oversight is aware that some entities would reduce withholding or estimated tax payments in anticipation of a tax reduction but will indicate the full impact for the proposal in the year the tax returns would be filed.

In response to similar legislation filed this year, officials from the **Department of Revenue (DOR)** assumed the proposal would have an unknown, negative impact on Total State Revenue as the number of first-time home buyers is indeterminable.

Section 143.1150, RSMo.

DOR officials noted this section would create the First-Time Home Buyer Tax Deduction. Beginning January 1, 2018, the legislation would allow a taxpayer a fifty percent deduction of the taxpayer's contribution to a first-time home buyer savings account. The proposal would exempt the savings account and income derived from the account from taxation.

Sections 443.1001 through 443.1007, RSMo.

DOR officials noted these sections would allow any individual to open a first-time home buyer savings account for the purchase of a primary residence in Missouri. The legislation restricts the amounts the home buyer may contribute to the account. The maximum annual amounts of contributions are $16,000 for individual filers and $32,000 for joint filers. In addition the legislation limits the maximum amount for all tax years to $50,000 and a total amount in an account of $150,000.

ASSUMPTION (continued)

Administrative Impact

DOR officials assume the Department would require form revisions and programming changes to implement this legislation. In addition, Personal Tax would require two additional Temporary Tax Employees to key returns and two additional Revenue Processing Technicians I for error correction and correspondence. Corporate Tax would require one additional Revenue Processing Technician I (Range 10, Step L) for increased correspondence. Collections and Tax Assistance would have additional customer contacts from the deduction, notice of adjustments and possible billings if taxpayers make corrections to returns, and would require two additional Tax Collection Technicians I (Range 10, Step L); one for every additional 15,000 contacts annually on the non-delinquent tax line and one additional Tax Collection Technician I (Range 10, Step L) for every additional 15,000 contacts annually on the delinquent tax line. Each technician would require CARES equipment and license.

In total, the **DOR** response included five additional employees. The total cost, including personnel, benefits, equipment, and expense, totaled $239,149 for FY 2018, $251,721 for FY 2019, and $253,810 for FY 2020.

Oversight notes that the number of entities making the maximum contribution of $16,000 for a married couple would be ($17,447,453 Indicated deductions / $16,000 limit per couple) = 1,090. The possibility of persons making contributions less than the maximum amount would indicate a larger number of contributors could take the deduction, but Oversight assumes the number would not likely be very large.

Oversight notes that implementing this proposal would most likely involve a limited number of lines on a limited number of returns and a limited number of filers, and assumes this proposal could be implemented with existing administrative resources. If unanticipated costs are incurred or if multiple proposals are implemented which increase the DOR workload, resources could be requested through the budget process.

IT impact

DOR officials assume the Integrated Tax System would require an additional $65,146 in programming to implement the provisions of this legislation.

Oversight will include the DOR estimate of IT cost in this fiscal note.

ASSUMPTION (continued)

Officials from the **University of Missouri - Economic and Policy Analysis Research Center (EPARC)** stated they were unable to estimate the number of taxpayers who would open a First-Time Home Buyers Savings Account or the amounts those taxpayers might contribute to such an account and could not provide an estimate of the fiscal impact of this proposal.

Officials from the **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

In response to similar legislation, officials from the **Office of the Secretary of State (SOS)** stated many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

FISCAL IMPACT - State Government	FY 2018 (10 Mo.)	FY 2019	FY 2020
GENERAL REVENUE FUND			
Cost - Department of Revenue IT	($65,146)	$0	$0
Revenue reduction - Deductions for contributions to savings accounts dedicated to buying a first time home.	$0	(Could exceed $1,000,000)	(Could exceed $1,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($65,146)**	**(Could exceed $1,000,000)**	**(Could exceed $1,000,000)**

FISCAL IMPACT - Local Government	FY 2018 (10 Mo.)	FY 2019	FY 2020
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which make contributions to a savings account dedicated to buying a first home.

FISCAL DESCRIPTION

This proposal would create a First-Time Home Buyer Savings Account Act.

Beginning January 1, 2018, an individual could open a savings account and designate the account as a first-time home buyer savings account to be used to pay or reimburse a qualified beneficiary's eligible expenses, as defined in the act.

This proposal would also create an income tax deduction for taxpayers who make contributions to such savings account. The deduction would be equal to fifty percent of the taxpayer's contribution to the account. The deduction could not exceed the taxpayer's Missouri adjusted gross income for the tax year the deduction is claimed, and could not exceed $8,000 for individuals or $16,000 for married individuals filing jointly.

An account holder would designate a beneficiary of the account no later than April 15 of the year following the tax year in which the account was opened.

The maximum amount an individual could contribute to an account in a single tax year is $16,000 for an individual or $32,000 for a couple filing a joint tax return. The maximum amount of all contributions to an account for all tax years would be $50,000, and an account could not contain more than $150,000.

Moneys withdrawn from an account would be subject to recapture if specific requirements in the proposal are not met.

No financial institution could be required to designate an account as a first-time home buyer savings account in its contracts or systems, to track the use of moneys withdrawn from an account, or to report any information that it is not otherwise required to by law.

FISCAL DESCRIPTION (continued)

The income tax deduction created by this act would sunset December 31, 2023, unless re-authorized by the General Assembly.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
Office of Administration
    Division of Budget and Planning
Department of Revenue
University of Missouri
    Economic and Policy Analysis Research Center

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