

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2342-02
Bill No.: HB 1019
Subject: Landlords & Tenants; Revenue Department; Tax Credits; Taxation and Revenue
Type: Original
Date: April 6, 2009

Bill Summary: This proposal provides an income tax credit for renovating rental dwellings or residences.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	(\$35,170)	(\$36,828) to (\$5,036,828)	(\$37,933) to (\$5,037,933)
Total Estimated Net Effect on General Revenue Fund	(\$35,170)	(\$36,828) to (\$5,036,828)	(\$37,933) to (\$5,037,933)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1	1	1

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning** state the proposal creates a tax credit to owners of qualifying rental property or residence for costs incurred in renovating such property. The total amount of tax credits available under this program is \$5 million per year. Therefore, this proposal could lower general and total state revenues by this amount.

Officials from the **Office of Secretary of State (SOS)** state 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 the 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.

Officials from the **Department of Revenue (DOR)** state their Personal Tax Section would require:

- One (1) Revenue Processing Technician I (Range 10, Step L) for every 4,000 credits claimed.

DOR also states their Collections & Tax Assistance Section state additional inbound calls would result from this legislation if the amounts of credits claimed exceed the \$5 million cap or the appropriate documentation for the credit is not submitted.

- One (1) Tax Collection Technician I (Range 10, Step L) for every additional 15,000 contacts annually on the delinquent tax line.
- One (1) Tax Collection Technician I (Range 10, Step L) for every additional 24,000 contacts annually to the non-delinquent tax line.
- One (1) Revenue Processing Technician I (Range 10, Step L) for every additional 4,800 contacts annually to the field offices.

In summary, DOR assumes the need for four additional FTE to administer this program, at an annual cost of roughly \$165,000.

ASSUMPTION

Due to the Statewide Information Technology Consolidation, DOR's response to a proposal will now also reflect the cost estimates prepared by OA-IT for impact to the various systems. As a result, the impact shown may not be the same as previous fiscal notes submitted. In addition, if the legislation is Truly Agreed to and Finally Passed the OA-IT costs shown will be requested through appropriations by OA-IT.

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. The Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 1 existing CIT III for 2 months for system modifications to MINITS. The estimated cost is \$8,882.

The annual limit on this program is \$5 million and the credit is limited to \$2,500 per taxpayer per year. Therefore, if all taxpayers qualify for and receive the maximum credit per year, this would equate to 2,000 taxpayers (\$5,000,000 / \$2,500 per taxpayers). This would not rise to the level of needing four additional FTE by the Department of Revenue. **Oversight** will assume DOR will be able to administer this program with one additional Revenue Processing Technician I.

Oversight has, for fiscal note purposes only, changed the starting salary for DOR's FTE to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous four years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 81 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied. Therefore, under this proposal, if \$5,000,000 of additional credits are issued, Oversight would assume \$4,150,000 (83 percent) of credits to be redeemed, reducing Total State Revenues.

Oversight assumes the proposal would have some positive fiscal benefit to the state; however, Oversight considers this to be an indirect impact and have not reflected such on the fiscal note.

This proposal could reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE			
<u>Costs - Department of Revenue</u>			
Personal Service (1 FTE)	(\$19,467)	(\$24,061)	(\$24,783)
Fringe Benefits	(\$9,467)	(\$11,701)	(\$12,052)
Expense and Equipment	<u>(\$6,236)</u>	<u>(\$1,066)</u>	<u>(\$1,098)</u>
<u>Total Costs - DOR</u>	(\$35,170)	(\$36,828)	(\$37,933)
FTE Change - DOR	1 FTE	1 FTE	1 FTE
<u>Loss - tax credit for renovating rental dwellings or residences</u>	\$0	\$0 to <u>(\$5,000,000)</u>	\$0 to <u>(\$5,000,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(\$35,170)</u>	<u>(\$36,828) to (\$5,036,828)</u>	<u>(\$37,933) to (\$5,037,933)</u>
Estimated Net FTE Change for General Revenue	1 FTE	1 FTE	1 FTE
<u>FISCAL IMPACT - Local Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

Beginning January 1, 2010, this bill authorizes an income tax credit for costs associated with a taxpayer's renovation of a rented residence. The rental property must be a multi-family dwelling with at least two units, one of which must be occupied by the taxpayer. The credit will be equal

FISCAL DESCRIPTION (continued)

to 20% of the renovation's costs, up to \$2,500 per taxpayer. The tax credit will be issued on a first-come, first-served basis and is not refundable or transferable but can be carried forward for three years. No more than \$5 million of these tax credits can be issued in any fiscal year.

The provisions of the bill will expire December 31 six years from the effective date.

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

Department of Revenue
Office of Administration - Budget and Planning
Office of the Secretary of State



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Director
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