

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5281-08
Bill No.: Truly Agreed To and Finally Passed SS#2 for HCS for HB 1796
Subject: Taxation and Revenue - General, Real Estate
Type: Original
Date: June 7, 2018

Bill Summary: This proposal modifies provisions relating to real estate.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	(\$99,872)	(Up to \$1,422,903)	(Up to \$2,746,272)
Total Estimated Net Effect on General Revenue	(\$99,872)	(Up to \$1,422,903)	(Up to \$2,746,272)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	2 FTE	2 FTE	2 FTE

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 2019	FY 2020	FY 2021
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

§143.1150 - §443.1007 First Time Home-buyers Deduction

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal would create a tax deduction, beginning with tax year 2019, for first time homeowners who contribute to a first-time home-buyer savings account. The deduction shall 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 \$800 for individuals and \$1,600 for married filing-joint taxpayers.

Data from the MO Realtors Association shows that there were 81,506 homes sold in Missouri during 2017 with a median price of \$157,000. According to information from the National Realtors Association 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 5% of the purchase price, and 63% of all buyers are married couples. In addition, home-buyers typically take three years to save a down payment.

Using the above information, B&P estimates that there would be \$24.8 million in total eligible contributions in tax year 2019. However, given that the typical home-buyer saves for the down payment for an average of three years, once fully implemented in tax year 2021, eligible contributions could be \$74.3 million annually. Since the deduction cap is limited to 50% of contributions and since deductions do not reduce revenues on a dollar for dollar basis, B&P estimates that this proposal would reduce Total State Revenue and General Revenue by up to \$0.7 million in FY 2020. This proposal could reduce Total State Revenue and General Revenue by up to \$2.2 million annually, once fully implemented in FY 2022.

The provisions of this bill also allow the recapture of all money withdrawn within a year of the first deposit or if the money is not used for the purchase of a house. The recaptured amount is to be added to the Missouri adjusted gross income of the account holder or qualified beneficiary. B&P is unable to determine how much, if any, funds could be recaptured under this provision.

Officials at the **Department of Revenue (DOR)** assume this section implements the First-Time Home Buyer Tax Deduction. For all tax years beginning on or after January 1, 2019, a taxpayer shall be allowed a deduction, equal to 50 percent of the participating taxpayer's contributions to a first time home buyer savings account in the tax year of the contribution. Each taxpayer claiming the deduction under this section shall file an affidavit with the income tax return verifying the amount of their contributions. The amount of the deduction claimed shall not exceed the amount of the taxpayer's Missouri adjusted gross income for the tax year the deduction is claimed and

ASSUMPTION (continued)

shall not exceed eight hundred dollars per taxpayer claiming the deduction, or one thousand six hundred dollars if married filing combined. Income earned or received as a result of assets in a first-time home buyer savings account shall not be subject to state income tax imposed pursuant to chapter 143. Annual contributions made to the savings program up to and including eight hundred dollars per participating taxpayer and up to and including one thousand six hundred dollars for married individuals filing a joint tax return shall be subtracted in determining Missouri adjusted gross income under section 143.121. If any deductible contributions to or earnings from any such programs referred to in this section are distributed and not used to pay for eligible expenses or are not held for the minimum length of time under subsection 2 of Section 443.1005, the amount so distributed shall be added to the Missouri Adjusted Gross Income of the participant or, if the participant is not living, the beneficiary, in the year the of the distribution.

Under Section 23.253 of the Missouri Sunset Act: the provisions of the new program authorized under this section shall automatically sunset on December thirty-first six years after the effective date of this section, unless re-authorized by an act of the general assembly. If such program is re-authorized, the program authorized under this section shall automatically sunset December thirty-first six years after the effective date of the re-authorization of this section. This section shall terminate on September first of the calendar year immediately following the calendar year in which the program authorized under this section is sunset.

The proposed legislation could potentially reduce revenues up to \$3.97 million each year as a result of the proposed deduction which is subject to increase if the percentage of first time home buyers increases; plus additional costs for the creation of the necessary forms required when filing a Missouri return claiming the allowed deduction.

Approximately 80,058 homes were sold in Missouri in 2016. Approximately 35 percent of home buyers are first time home buyers. The maximum amount of contributions allowed within §143.1150, §443.1003, §443.1004 - §443.1007 is \$3,200 each year which allows a deduction (at 50 percent) of \$1,600.

DOR assumes:

Number of Homes Sold in MO in 2016 per Missouri Realtors -	80,058
% of Homes bought by First Time Buyers per National Association of Realtors -	x <u>35%</u>
Total Number of MO Homes sold to First Time Buyers -	28,020 homes
Married Owners	17,655
Single Owners	10,368

ASSUMPTION (continued)

Total Eligible Contributions	FY 2020	FY 2021	FY 2022
Single (use cap if < avg down payment)	\$16,588,018	\$33,176,035	\$49,764,053
Married (use cap if < avg down payment)	\$28,244,462	\$56,488,925	\$84,725,537
Total Eligible Contributions	\$44,832,480	\$89,664,960	\$134,489,590
Total Deduction	(owners x deduction amount)		
Single	\$8,294,088.80	\$16,588,017.60	\$24,882,026.40
Married	\$14,122,231.20	\$28,244,462.40	\$42,362,768.60
Total Deduction	\$22,416,240	\$44,832,480	\$67,244,795
Total Deduction (Total Deduction listed above x 5.9% rate)	\$1,322,558	\$2,645,116	\$3,967,443

DOR's Personal Tax Section will require one Revenue Processing Technician I (\$26,340) for every 14,700 errors created. Personal Tax requires one (1) Revenue Processing Technician I (\$26,340) for every 5,700 pieces of correspondence generated. Personal Tax requires one (1) temporary employee (\$8,164) for the new line item. DOR assumes a cost of approximately \$100,000 per year for the three additional FTE.

DOR assumes that beginning January 1, 2019, any individual may open an account with a financial institution and designate the account, in its entirety, as a first-time home buyer savings account to be used to pay or reimburse a qualified beneficiary's eligible expenses for the purchase of his or her primary residence in Missouri. An individual may be the account holder of multiple accounts and an individual may jointly own the account with another person if such persons file a combined income tax return. An account holder shall designate a first-time home buyer as the qualified beneficiary of the first-time home buyer savings account. The account holder may designate himself or herself as the qualified beneficiary. A maximum contribution to a first-time home buyer savings account is one thousand six hundred dollars per year for an individual and three thousand two hundred dollars per year for account holders who file a combined tax return.

ASSUMPTION (continued)

Oversight notes this proposal allows for a 50% deduction for contributions to a first time home-buyer savings account. Oversight notes this deduction begins starting January 1, 2019. Therefore, Oversight assumes the first year impacted would be FY 2020, the year in which the 2019 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.

Finally, **Oversight** assumes the amount of additional tax due to the recapture of withdrawals would not be significant.

Oversight found that six states have implemented a program similar to this proposal. Iowa, Minnesota and Mississippi just passed their programs in FY 2017 and they are effective for the current tax year. Colorado, Montana and Virginia have existing programs however, none have information available as to the number of participants.

Oversight will use DOR's estimates for the fiscal note. Oversight's policy is to show the full amount of the impact if all eligible taxpayers participate to the fullest in the program. However, for informational purposes we are showing what the cost would be should fewer taxpayers chose to participate.

% of Taxpayers Participating	1st Year	2nd Year	3rd Year
25%	\$ 330,683	\$ 661,279	\$ 991,861
50%	\$ 661,367	\$ 1,322,558	\$ 1,983,722
75%	\$ 992,049	\$ 1,983,837	\$ 2,975,582
100%	\$ 1,322,733	\$ 2,645,116	\$ 3,967,443

ASSUMPTION (continued)

§442.055 Hazardous Materials

Officials at the **B&P** assume §442.055 would make it a class A misdemeanor to knowingly rent, lease, sell, transfer, or convey a property that has been contaminated with radioactive or other hazardous materials without disclosing such fact. B&P notes that the terms "radioactive material" and "hazardous material" are not defined. It is unclear whether "radioactive material" would apply to radon gas in addition to other physical material. B&P estimates that this provision could impact Total State Revenue by an unknown amount if this provision leads to more individuals being convicted of a class A misdemeanor.

Officials at the **DOR** assume in the event that any premises to be rented, leased, sold, transferred, or conveyed is or was previously contaminated with radioactive material, the owner, seller, landlord, or other transferor shall disclose in writing to the prospective lessee, purchaser, or transferee the fact the premises is or was previously contaminated with radioactive material; provided that, the owner, seller, landlord, or other transferor has knowledge of such radioactive contamination. In the event that an owner, seller, landlord, or other transferor does not make the disclosure as required under this subsection, and the person had knowledge of such radioactive contamination, the person shall be guilty of a Class A misdemeanor.

Oversight notes this proposal adds language that an owner of a property disclose upon selling their property the presence of hazardous material on the property. This proposal makes failure to disclose a class A misdemeanor. Oversight assumes this would have no fiscal impact on the state.

Bill as a Whole

Officials at the **Department of Natural Resources**, the **Department of Insurance, Financial Institutions and Professional Registration** and the **Joint Committee on Administrative Rules** each assume there is no fiscal impact from this proposal.

In response to similar legislation filed this year, 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 the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements

ASSUMPTION (continued)

should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
GENERAL REVENUE			
<u>Revenue Reduction</u> - tax deduction for first time home buyers §143.1150	\$0	(Up to \$1,322,558)	(Up to \$2,645,116)
<u>Cost - DOR</u>			
Personal Service	(\$43,900)	(\$53,207)	(\$53,739)
Temporary Tax Employee	(\$8,164)	(\$8,245)	(\$8,328)
Fringe Benefits	(\$31,018)	(\$37,378)	(\$37,536)
Equipment & Expenses	(\$16,790)	(\$1,515)	(\$1,553)
<u>Total Costs - DOR</u>	<u>(\$99,872)</u>	<u>(\$100,345)</u>	<u>(\$101,156)</u>
FTE Change	2 FTE	2 FTE	2 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$99,872)</u>	<u>(Up to \$1,422,903)</u>	<u>(Up to \$2,746,272)</u>
Estimated Net FTE Change on General Revenue	2 FTE	2 FTE	2 FTE
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2019 (10 Mo.)	FY 2020	FY 2021
	<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, 2019, this bill establishes the "First-Time Home Buyer Savings Account Act" and authorizes an individual income tax deduction for 50% of the contributions to such a savings account dedicated to buying a first home. The bill specifies that the annual contribution deduction limit is \$1,600 for an individual or \$3,200 for a couple filing a combined tax return and a first-time home buyer is an individual who has never owned a single-family, owner-occupied primary residence including a condominium or manufactured home or a divorced individual who has not been listed on a property title for at least three years. The maximum contribution limit for all tax years is \$20,000 and the maximum total amount in the savings account is \$30,000.

Funds in the savings account can be used only for eligible expenses of purchasing a primary residence in this state, transferred to another first-time home buyer savings account or used to pay service fees. Any withdrawal of funds for other purposes will be subject to recapture and penalties.

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 Insurance, Financial Institutions and Professional Registration
Department of Natural Resources
Department of Revenue
Joint Committee on Administrative Rules
Office of Administration
Division of Budget and Planning

Ross Strobe



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