COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3896-01
Bill No.: HB 1588
Subject: Taxation and Revenue - General; Tax Credits; Urban Redevelopment; Housing; Property, Real and Personal
Type: Original
Date: February 24, 2020

Bill Summary: This proposal creates a new tax credit for first time purchasers of homes in a blighted area that will be used for owner occupancy.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue	More than or Less than ($9,575,000)	More than or Less than ($9,575,000)	More than or Less than ($9,575,000)
Total Estimated Net Effect on General Revenue	**More than or Less than ($9,575,000)**	**More than or Less than ($9,575,000)**	**More than or Less than ($9,575,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
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 2021	FY 2022	FY 2023
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget & Planning Division (B&P)** state this proposal creates a tax credit for first time purchasers of homes in a blighted area that will be owner-occupied.

This proposal could reduce General Revenue (GR) and Total State Revenues (TSR), and could impact the calculation under Article X, Section 18(e).

This proposal would create a $5,000 income tax credit for a qualified first-time home buyer who purchases a home in a designated blighted area; there is no aggregate cap on the amount of credits that may be issued annually. According to the Missouri Housing Development Commission, there were 1,915 borrowers that participated in the First Place Homebuyer Program in 2018, a program which provides assistance to similar home buyers through cash payments and reduced interest rates. B&P does not have an estimate of how many of these participants might have purchased homes in blighted areas. Therefore, B&P estimates this program could reduce GR and TSR up to $9,575,000 annually.

Data from the MO Realtors shows that there were 101,883 homes sold in Missouri during 2018. According to information from the National Association of Realtors, 33% of all home buyers were first-time home buyers. There is no way to determine how many of these homes might have been located in a blighted area, however an article from 2012 indicated that more than a third of Missouri is classified as blighted. Based on these numbers, B&P notes the potential participants could significantly exceed the 1,915 borrowers included in the estimate above.

Oversight notes B&P assumes this proposed legislation would result in a negative fiscal impact by an amount that could exceed $9,575,00 annually.

Officials from the **Missouri Department of Revenue (DOR)** state, starting August 28, 2020, this proposal would allow a tax credit in an amount equal to five thousand dollars ($5,000) for purchasing property that meets certain requirements. The taxpayer must be a first time homebuyer and have purchased the property within one year of receiving the credit and have an income below thresholds established in Section 32.105. The criteria for receiving the tax credit also includes the following about the property: it must have been vacant at least 6 months, be eligible for tax abatement by the city of St. Louis, and be blighted.

The Missouri Housing Development Commission has a program for first time homebuyers meeting certain low income thresholds and for people stepping up in homeownership. The program provides loan guarantees. In Fiscal Year 2018 they provided secured loans to 1,915 people with an average mortgage of $121,013. The average down payment on these homes was $4,840.

ASSUMPTION (continued)

DOR notes that not all of the 1,915 would have been eligible for this program given the fact that this proposal appears to only impact those purchasing homes in the St. Louis area. If only 25% of the people received the tax credit then the credit would cost $2,393,750 (1,915/4 * $5,000).

DOR assumes this could result in a loss to GR of $2,393,750 to $9,575,000 (1,915 * $5,000).

This legislation will result in a minimal increase in tax credits redeemed and errors/correspondences generated. DOR anticipates being able to absorb this increase. If the increase is significant, DOR will request FTE through the appropriations process based on the following:

One (1) Revenue Processing Technician I for every 6,000 tax credits redeemed, one (1) Revenue Processing Technician I for every 7,600 errors/correspondence generated and programming changes.

Oversight notes DOR assumes a negative fiscal impact as a result of this proposed legislation.

Oversight assumes DOR can absorb the responsibilities of this proposed legislation with existing resources. However, should the number of redemptions, errors, and/or correspondence be significant, DOR may seek additional FTE through the appropriation process.

Oversight notes this proposed legislation would allow a first time home-buyer who enters into an agreement with the “authority” and has met the income requirements set forth in this proposed legislation and purchases a home that is: 1) eligible for a tax abatement certificate under Section 99.700, 2) has been vacant for at least six months, 3) considered blighted, 4) is uninhabitable or 5) has been issued property maintenance code violations and be likely to meet the definition of affordable housing unit as defined under Section 32.105 to be awarded a tax credit equal to $5,000 to be used to offset the taxpayer’s tax liability imposed under Chapter 143.

The tax credit created under this proposed legislation shall not be refunded to the taxpayer, but may be carried back to any of the taxpayer’s three prior tax years or carried forward for five subsequent tax years.

Oversight notes, based on information published by Missouri Realtors’, the total number of homes sold in 2017, 2018, and 2019 were:

ASSUMPTION (continued)

Calendar Year	Number of Homes Sold
Calendar Year 2017	87,851
Calendar Year 2018	101,877
Calendar Year 2019	92,105

Oversight notes the three year average number of homes sold totals 93,944 homes each year.

Oversight further notes, based on data published by the National Association of Realtors, first-time home buyers make up approximately 32 percent of all home sales. Therefore, Oversight estimates that, of the (average) 93,944 homes sold each year, approximately 30,062 could have been purchased by first-time home buyers.

Per an article published by the Show-Me Institute, approximately 24,870 square miles, or one third, of Missouri has been declared "blighted."

If one third of the estimated number of homes purchased by first-time home buyers are located in "blighted" areas, Oversight estimates 10,021 purchases **may** qualify for this tax credit (30,062 * 1/3). If this assumption is accepted, Oversight estimates GR and TSR could be reduced by $50,103,644 annually (10,021 * $5,000).

Oversight is unable to determine: 1) how many first-time home buyers would meet the income requirements set forth in this proposed legislation, 2) the number of homes actually designated as blighted; 3) the number of homes that would qualify for a tax abatement certificate under Section 99.700, and how many of the homes have been vacant for six months. Therefore, Oversight assumes the estimated negative fiscal impact of $50,103,644 could be significantly less than or significantly greater than actual revenue reduction(s) recognized if this proposed legislation were enacted.

For purposes of this fiscal note, Oversight will report a negative fiscal impact ranging from $0 (no qualifying home purchases occur) to "Less than or greater than" the negative fiscal impact of ($9,575,000), as provided and estimated by B&P.

Oversight notes this proposed legislation does not have a beginning date. Therefore, Oversight assumes the tax credit created under this proposed legislation could be claimed as early as August 28, 2020 (Fiscal Year 2021).

Oversight notes the **Missouri Department of Economic Development**, the **Missouri State Tax Commission**, the **City of O'Fallon**, the **City of Springfield** and the **City of Kansas City** have stated the proposed legislation would not have a direct fiscal impact on their respective organizations. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these organizations.

FISCAL IMPACT - State Government	FY 2021 (10 Mo.)	FY 2022	FY 2023
GENERAL REVENUE FUND			
Revenue Reduction - Section 99.720 - Tax credit for first time purchases of homes in a blighted area	More than or Less than ($9,575,000)	More than or Less than ($9,575,000)	More than or Less than ($9,575,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**More than or Less than ($9,575,000)**	**More than or Less than ($9,575,000)**	**More than or Less than ($9,575,000)**

FISCAL IMPACT - Local Government	FY 2021 (10 Mo.)	FY 2022	FY 2023
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposed legislation could impact any small business operating as a home selling agency whose home listings include vacant homes, deteriorated homes, or uninhabitable homes provided the number of purchases of such homes increases as a result of this proposed legislation.

FISCAL DESCRIPTION

This bill authorizes a $5,000 tax credit for purchasing blighted homes. To be eligible, a tax payer must be a first-time home buyer, agree to use the property as a single family household and as a primary residence for at least two years unless that agreement is deemed to be a hardship by the local land clearance for redevelopment authority, have purchased the property within one year prior to or six months following the application date, and have an income below the amount required to qualify for affordable housing assistance. The taxpayer shall apply to the local authority for the credit, which may prescribe rules for application for the credit and require evidence that the eligibility requirements have been met. For the property to be eligible for the credit it must be eligible for a tax abatement certificate and have had an abatement application submitted. The property must also have been vacant for six months prior to purchase, be blighted, and be likely to meet the definition of an affordable housing unit during the requisite

FISCAL DESCRIPTION (continued)

two year residency period. The tax credit is not assignable, refundable, or transferable but may be carried back to any of the taxpayer's three prior taxable years or carried forward to any of the taxpayer's five subsequent taxable years. Accountability provisions are included for taxpayers that fail to use the property as an owner-occupied principal residence for two years without approval from the authority. The bill will sunset six years from its 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

Office of Administration - Budget & Planning Division
Missouri Department of Revenue
Missouri Department of Economic Development
Missouri State Tax Commission
City of O'Fallon
City of Springfield
City of Kansas City

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February 24, 2020

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