COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1989-01
Bill No.: HB 863
Subject: Landlords and Tenants; Revenue Department; Tax Credits; Taxation and Revenue - Income
Type: Original
Date: April 7, 2015

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Bill Summary: This proposal authorizes a tax credit for certain costs incurred in the renovation of a taxpayer's rented dwelling or residence.

## FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| General Revenue | $0 | $0 to ($5,000,000) | $0 to ($5,000,000) |
| **Total Estimated Net Effect on General Revenue** | **$0** | **$0 to ($5,000,000)** | **$0 to ($5,000,000)** |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| | | | |
| | | | |
| **Total Estimated Net Effect on Other State Funds** | **$0** | **$0** | **$0** |

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 5 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| | | | |
| | | | |
| **Total Estimated Net Effect on All Federal Funds** | **$0** | **$0** | **$0** |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| | | | |
| | | | |
| **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 2016 | FY 2017 | FY 2018 |
| **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 prior year 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 at the **Office of Administration's Division of Budget and Planning (BAP)** assume this proposal provides a process whereby a qualifying taxpayer that renovates their rented dwelling or residence may receive a tax credit for up to 20% of the eligible costs for the renovation, but no more than $250,000. There is a $5,000,000 cap on the tax credit. Therefore, this proposal could reduce general and total state revenues up to this amount annually, and could impact the calculation under Article X, Section 18(e).

In response to similar legislation filed last year (HB 1564), officials at the **Department of Revenue (DOR)** assumed this proposal required computer programming changes to various tax systems. The IT portion of this fiscal impact was estimated at $9,173 for 336 FTE hours.

DOR's Personal Tax Division required the need for one Revenue Processing Technician I for additional tax credits claimed. DOR's Collections and Tax Assistance Division needed two Tax Collection Technicians I for additional contacts on the delinquent and non-delinquent tax lines and one Revenue Processing Technician I for additional contacts to the tax assist offices.

**Oversight** assumes DOR is provided with core funding to handle a certain amount of computer programming activity each year. Oversight assumes DOR could absorb the programming costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

**Oversight** assumes DOR's Personal Tax Division and Collections and Tax Assistance Division could absorb the responsibilities of this tax credit with existing resources. Should DOR experience the number of additional tax credit redemptions to justify another FTE, they could seek that FTE through the appropriation process.

Officials at the **Joint Committee on Administrative Rules** assume no fiscal impact from this proposal to their organization.

ASSUMPTION (continued)

Officials from the **Office of the 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.

**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.

**Oversight** assumes this creates a new tax credit beginning January 1, 2016, with a $5 million annual cap. This credit will not be claimed against an individuals taxes until FY 2017. Therefore, Oversight will show the amount of loss revenue to the State in FY 2017 and FY 2018 as $0 (no credits issued) to the annual cap of $5,000,000.

| FISCAL IMPACT - State Government | FY 2016 (10 Mo.) | FY 2017 | FY 2018 |
|---|---|---|---|
| **GENERAL REVENUE** | | | |
| Revenue Reduction - a tax credit for renovating costs of rental property | $0 | $0 to ($5,000,000) | $0 to ($5,000,000) |
| **ESTIMATED NET EFFECT ON GENERAL REVENUE** | **$0** | **$0 to ($5,000,000)** | **$0 to ($5,000,000)** |

| FISCAL IMPACT - Local Government | FY 2016 (10 Mo.) | FY 2017 | FY 2018 |
|---|---|---|---|
| | **$0** | **$0** | **$0** |

## 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, 2016, this bill authorizes an income tax credit for certain specified costs incurred in the renovation of a taxpayer's rented dwelling or residence. The building 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 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 after 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

Office of Administration's Division of Budget and Planning
Joint Committee on Administrative Rules
Office of the Secretary of State
Department of Revenue

Mickey Wilson

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|---|---|
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