COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3221-02
Bill No.: HB 1092
Subject: Motor Vehicles; Revenue Department; Taxation and Revenue.
Type: Original
Date: February 9, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	(More than $136,802)	(More than $135,331)	(More than $136,217)
Total Estimated Net Effect on General Revenue Fund	**(More than $136,802)**	**(More than $135,331)**	**(More than $136,217)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
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 2007	FY 2008	FY 2009
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Transportation** assume the proposal would not fiscally impact their agency.

Officials from the **Office of Administration - Budget and Planning** state the legislation provides a deduction from Missouri adjusted gross income, up to $1,500, for the purchase of a qualifying hybrid vehicle. The proposal will reduce General and Total State Revenues by an unknown amount.

Officials from the **Department of Revenue (DOR)** state this legislation allows any taxpayer who purchases a qualified hybrid vehicle, a deduction to the Missouri Adjusted Gross Income (MAGI) of up to $1,500 or 10% (whichever is less) of the purchase price of the qualified vehicle, for the tax year in which the purchase was made. This deduction will begin on or after January 1, 2006.

DOR states the IRS already allows a deduction to the FAGI of up to $2,000 for any NEW hybrid vehicle purchased & put into use in 2004 & 2005, a deduction of up to $500 for any NEW hybrid vehicle put into use in 2006, and no deduction allowed for 2007 forward.

ASSUMPTION (continued)

DOR states Personal Tax will require three (3) Tax Temporary employees (each at $7,200 annually) to key the additional data and verifying the documentation. It is believed that there will be a number of taxpayers who will take advantage of the new deduction, therefore, Personal Tax will require two Tax Processing Technician Is (each at $22,992 annually) for errors for correspondence processed.

Customer Assistance anticipates an increased number of contacts, but should be able to handle the increase with existing staff.

DOR states the legislation will require modifications to individual and corporate income tax systems. Taxation estimates these modifications will require a MINITS programming costs of $46,170 (1,384 hours). COINS will also need to be modified for a programming cost of $23,085 (692 hours). DOR proposes to cover these costs with current IT staff. Effective July 1, 2006, our IT staff will be moved to the Office of Administration pursuant to consolidation, but we have no reason to believe this transfer will limit our ability to absorb these costs. In the event multiple new credits/deductions are passed, this cost could exceed current appropriation levels and result in additional funds being requested.

In summary, DOR assumes a cost of roughly $105,000 to the General Revenue Fund per year to implement the legislation. DOR did not provide an estimate of the loss in tax revenue.

Oversight researched the sale of hybrid vehicles on the internet. According to one source, there were 83,153 new hybrid vehicle registrations in 2004, which was an 81 percent increase over 2003. Another source of information, put the number of sales in 2004 at 88,000 (an 85% increase from 2003) and the sales for 2005 at 205,749 (a 134% increase from 2004). The first source listed the top fifteen states for new hybrid vehicle registrations in 2004, of which Missouri was not included. The state with the fifteenth most hybrid vehicle registrations in 2004 was Arizona with 1,672. Oversight will make the assumption that the number of hybrid vehicles sold in Missouri in 2004 was between 1,200 and 1,600. Due to the increasing popularity and the increasing number of vehicles that offer a hybrid motor as an option, Oversight will assume the number of hybrid vehicles will continue to increase annually and will assume annual sales of hybrid motor vehicles in Missouri in 2006, 2007 and 2008 will be more than 1,500.

Using the assumption that more than 1,500 hybrid vehicles are sold in Missouri, this would result in a cumulative income tax deduction of $2,250,000 (1,500 vehicles x $1,500), and a reduction in tax collections of more than $101,250 (assuming a 4.5% marginal tax rate). The actual number of hybrid vehicles could substantially exceed 1,500 if the popularity of the vehicles continue to increase. For example, if Missouri experienced a corresponding 134% increase from the 1,500

ASSUMPTION (continued)

vehicle estimate, this would correlate to a loss in General Revenue collections of $236,925 (1,500 vehicles x 234% x $1,500 x 4.5%). Additional increases in subsequent years would obviously increase the loss tax revenue.

The income tax deduction is for all tax years beginning on or after January 1, 2006, therefore, **Oversight** will assume a loss exceeding $100,000 each year of the fiscal note, including FY 2007.

Based on DOR's response to a similar proposal from 2005 (HB 226), **Oversight** will assume DOR could administer the new income tax deduction with one additional FTE).

The proposal will reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
Costs - Department of Revenue			
Personal Service (1FTE)	($19,639)	($24,156)	($24,760)
Fringe Benefits	($8,653)	($10,643)	($10,909)
Expense and Equipment	($8,510)	($532)	($548)
Total Costs - DOR	($36,802)	($35,331)	($36,217)
Loss - Income tax reduction from new deduction for purchase of hybrid vehicles	(More than $100,000)	(More than $100,000)	(More than $100,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**(More than $136,802)**	**(More than $135,331)**	**(More than $136,217)**

FISCAL IMPACT - Local Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that purchase hybrid vehicles could be fiscally impacted from this proposal.

DESCRIPTION

This proposal authorizes an individual income tax deduction, for tax years beginning on or after January 1, 2006, for a qualified hybrid vehicle that is powered by a combination of an electric motor and gasoline engine. The deduction is limited to the lessor of 10% of the purchase price of the vehicle or $1,500.

The provisions of the bill will expire 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
Department of Transportation

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