

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3221-03  
Bill No.: HCS for HB 1092  
Subject: Motor Vehicles; Revenue Department; Taxation and Revenue.  
Type: Original  
Date: March 17, 2006

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**FISCAL SUMMARY**

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

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## **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 (BAP)** 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, but BAP defers to the Department of Revenue for the estimated impact.

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 \$1,500. 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.

ASSUMPTION (continued)

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 1/1/06.

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.

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

ASSUMPTION (continued)

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 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.**

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

<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b>(More than <u>\$136,802</u>)</b>	<b>(More than <u>\$135,331</u>)</b>	<b>(More than <u>\$136,217</u>)</b>
<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

#### FISCAL IMPACT - Small Business

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

#### DESCRIPTION

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

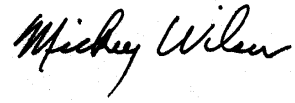
The provisions of the substitute will expire six years from the effective date.

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  
Office of the Secretary of State

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A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive style with a large, stylized 'M' and 'W'.

Mickey Wilson, CPA  
Director  
March 17, 2006