

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0089-01
Bill No.: HB 53
Subject: Motor Vehicles; Revenue Dept.; Taxation and Revenue - Income
Type: Original
Date: January 8, 2007

Bill Summary: Would authorize an individual income tax deduction for the purchase of hybrid motor vehicles.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(More than \$131,188)	(More than \$132,248)	(More than \$133,215)
Total Estimated Net Effect on General Revenue Fund	(More than \$131,188)	(More than \$132,248)	(More than \$133,215)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the Office of the **Secretary of State** (SOS) stated the following:

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, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve 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.

Officials from the **Department of Natural Resources** (DNR) would not anticipate a direct fiscal impact from this proposal. The Missouri Department of Natural Resources may be asked to provide information regarding eligible "Qualified hybrid motor vehicles". The proposal would authorize an individual income tax deduction for the purchase of hybrid motor vehicles. Individual state income tax liability may be reduced by no more than \$1,500 per tax payer filing for this tax credit. Total state revenues would be impacted by the number and amount of tax credits filed in future tax years.

Officials from the **Department of Revenue** (DOR) assume this proposal would allow any taxpayer who purchases a qualified hybrid vehicle, a deduction to the Missouri Adjusted Gross Income 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. DOR stated that the IRS already allows a deduction to the Federal Adjusted Gross Income for the purchase of hybrid vehicles. DOR was not able to provide information regarding hybrid vehicle registrations in Missouri.

Administrative Impact:

DOR assumes Personal Tax will require 2 Temporary Tax Employees to key the additional data and verify the documentation. They believe there will be a number of taxpayers who will take advantage of the new deduction, therefore, will also require 1 Tax Processing Technician I for every 19,000 errors and 1 Tax Processing Technician I for every 2,400 pieces of correspondence processed. Customer Assistance anticipates an increased number of contacts, but should be able

to handle the increase with existing staff.

ASSUMPTION (continued)

The DOR Office of Administration Information Technology stated that they believe they could use existing resources to accomplish the modification required. The value of effort is calculated at 8 CIT III for two months for a total of \$66,976.

DOR estimated the total administrative cost including personnel, fringe benefits, equipment, and expense to be \$93,662 for FY 2008, \$101,780 for FY 2009, and \$104,354 for FY 2010. 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 199,148 new hybrid vehicle registrations in 2005, which was a 139 percent increase over 2004. The source listed the top ten states for new hybrid vehicle registrations in 2005, which did not include Missouri. This same source listed the top 15 states for 2004, which also did not include Missouri. Based on the available data, Oversight estimated that the number of hybrid vehicles sold in Missouri in 2004 was between 1,200 and 1,600. Due to the increasing popularity and increasing number of hybrid vehicles available, Oversight assumes the number of hybrid vehicles will increase annually and that annual sales of hybrid vehicles in Missouri 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 more than \$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). If Missouri experienced a corresponding 139% increase from the 1,500 vehicle estimate, this would correlate to a loss in General Revenue collections of \$241,988 (\$101,250 x 239%). Oversight will assume a loss exceeding \$100,000 each year.

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.

Oversight has, for fiscal note purposes only, changed the starting salary for new positions to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also reduced equipment and expense items in accordance with OA budget guidelines.

The proposal will reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
<u>Costs - Department of Revenue</u>			
Personal Service (1FTE)	\$17,820	\$22,026	\$22,686
Fringe Benefits	\$7,851	\$9,704	\$9,996
Expense and Equipment	<u>\$5,517</u>	<u>\$518</u>	<u>\$533</u>
<u>Total Costs - DOR</u>	<u>\$31,188</u>	<u>\$32,248</u>	<u>\$33,215</u>
<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>)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	(More than <u>\$131,188</u>)	(More than <u>\$132,248</u>)	(More than <u>\$133,215</u>)
<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal could have a fiscal impact to small businesses which sell or purchase hybrid vehicles.

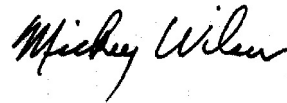
FISCAL DESCRIPTION

This proposal would authorize an individual income tax deduction for the purchase of hybrid motor vehicles.

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 the Secretary of State
Department of Natural Resources
Department of Revenue

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
January 8, 2007