

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3101-01
Bill No.: HB 1326
Subject: Environmental Protection; Motor Vehicles; Revenue Dept.; Taxation and
Revenue - Income
Type: Original
Date: January 17, 2008

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	(\$397,097)	(\$499,255)	(\$650,045)
Total Estimated Net Effect on General Revenue Fund	(\$397,097)	(\$499,255)	(\$650,045)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
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 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	2	2	2
Total Estimated Net Effect on FTE	2	2	2

☐ 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 2009	FY 2010	FY 2011
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

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

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 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 would be required to make form and instruction changes for individual income tax and corporate income tax, as well as systems changes (MINITS and COINS).

DOR provided an estimated cost to implement this proposal including two additional FTE Tax Processing Technician I and two temporary tax employees with related equipment and expenses totaling \$93,891 for FY 2009, \$102,533 for FY 2010, and \$105,609 for FY 2011.

Oversight has, for fiscal note purposes only, changed the starting salary for the two additional FTE 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 adjusted the estimated equipment and expense amounts in accordance with OA budget guidelines, and Oversight assumes that two additional FTE could be accommodated in existing space..

ASSUMPTION (continued)

DOR officials also provided this estimate of IT cost for the proposal:

The Office of Administration Information Technology Services Division (ITSD/DOR) assumes the IT portion of this request could be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. ITSD/DOR estimates that this legislation could be implemented at a cost of \$33,488 utilizing 2 existing CIT III for 1 month for modifications to MINITS and 3 existing CIT III for 2 months for modifications to COINS, CAFÉ, Corporate E-file, and data warehouse.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this proposal would not result in additional costs or savings to their organization.

The legislation provides a deduction from Missouri adjusted gross income, up to \$1,500, for the purchase of a qualifying hybrid vehicle. According to a 2/26/07 publication by R.L. Polk, there were 254,545 hybrid vehicle registrations in 2006. Missouri was not among the top ten states cited in the article, which accounted for 155,979 of these registrations. BAP assumes Missouri accounted for 1/40 of the remaining registrations, or a total of 2,464. A separate article from R.L. Polk projected an increase of 56.9 percent in 2007 for Midwestern states. Using this rate, BAP estimates 3,866 hybrid registrations in Missouri in 2007.

Therefore, this proposal could reduce Missouri Taxable Income by \$5.8 million. Assuming a 4.5% effective tax rate, this proposal would reduce general and total state revenues by \$261,000 annually beginning in FY09.

Oversight has used the BAP forecast of Missouri sales and has also researched hybrid car sales statistics. Oversight found a J.D. Power forecast (based on six month total sales) of 345,000 hybrid car sales for 2007, a 35% increase over 2006 sales. Assuming that Missouri sales represent the same percentage of total sales as in 2006, Missouri sales would be:

Missouri 2006 sales/US 2006 sales or $(2,464/254,545) = 1\%$
Missouri sales percent X US 2007 Sales $(1\% \times 345,000) = \$3,450$.
Missouri sales estimate X per vehicle tax deduction $(\$3,450 \times \$1,500) = \$5,175,000$
Tax deduction amount X average tax rate estimate $(\$5,175,000 \times 4.5\%) = \$232,875$.

ASSUMPTION (continued)

If hybrid car sales continue to increase at 35% per year, the estimated tax reduction would be:

2007 Tax deduction X 135% (\$232,875 X 1.35) = 2008 Tax deduction \$314,381 (FY2009)
 2008 Tax deduction X 135% (\$314,381 X 1.35) = 2009 Tax deduction \$424,415 (FY 2010)
 2010 Tax deduction X 135% (\$424,415 X 1.35) = 2010 Tax deduction \$572,960 (FY 2011)

Oversight assumes that all Missouri taxpayers would be able to take this tax credit, and that all Missouri hybrid vehicle purchases would be made by taxable entities.

This proposal could reduce total state revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
<u>Revenue reduction</u> - Hybrid vehicle tax deduction	(\$314,381)	(\$424,415)	(\$572,960)
<u>Cost</u> - Department of Revenue			
Personal Service (2.0 FTE)	(\$36,700)	(\$37,801)	(\$38,935)
Temporary employees	(\$13,390)	(\$13,792)	(\$14,205)
Fringe Benefits	(\$22,150)	(\$22,814)	(\$23,499)
Expense and Equipment	<u>(\$10,476)</u>	<u>(\$433)</u>	<u>(\$446)</u>
	<u>(\$82,716)</u>	<u>(\$74,840)</u>	<u>(\$77,085)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$397,097)</u>	<u>(\$499,255)</u>	<u>(\$650,045)</u>
Estimated Net FTE Effect on General Revenue Fund	2	2	2
<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses which purchase hybrid vehicles would have a direct fiscal impact as a result of this proposal.

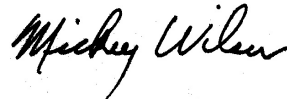
FISCAL DESCRIPTION

This proposal would authorize an 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
Office of Administration
Division of Budget and Planning
Department of Revenue



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Director
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