

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0094-02
Bill No.: HB 31
Subject: Energy; Motor Vehicles; Revenue Dept.; Taxation and Revenue - Income
Type: Original
Date: February 4, 2009

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue *	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
Total Estimated Net Effect on General Revenue Fund *	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)

* Calculated impact was \$333,480.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
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 2010	FY 2011	FY 2012
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 **Office of Administration, Division of Budget and Planning (BAP)** assume there would be no added cost to their organization as a result of this proposal. BAP also provided this estimate of the fiscal impact for the proposal.

This proposal would authorize any taxpayer who purchases a qualified hybrid vehicle to subtract from their adjusted gross income an amount equal to \$2,000 or ten percent of the purchase price of the vehicle, whichever is less. According to a 12/09/08 web publication by www.hybridreview.blogspot.com, there were 291,129 hybrid vehicle sold nationwide up until November 2008. If the current trend continues through December, about 317,595 hybrid vehicles would be sold in 2008. Approximately 68% of the total hybrid sales occur in the top 10 purchasing states. Since Missouri is not among the top 10 states, we can assume that Missouri hybrid sales accounts for 1/40 of the remaining sales, or a total of 2,568.

Therefore, this proposal could reduce Missouri Taxable Income by $(2,568 \times \$2,000) = \5.13 million. Assuming a 4.5% effective tax rate, this proposal would reduce general and total state revenues by \$231,081 annually beginning in FY09. This number is lower than previous year's estimate of \$347,900 due to reduced hybrid vehicle sales this year. However, BAP notes that sales may rise in the future.

Officials from the **Department of Natural Resources** do not anticipate any direct fiscal impact as a result of this proposal.

DESCRIPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would allow a taxpayer who purchases a qualified hybrid motor vehicle to take a deduction from Missouri Adjusted Gross Income of \$2,000 or 10% of the purchase price, whichever is less, for all tax years beginning on or after January 1, 2010. The proposal would authorize the Director of Revenue to establish procedures by which the deduction may be claimed, and promulgate rules to implement these provisions.

Modifications to the MINITS system and tax forms would be required. Personal Tax would require two Temporary Tax Employees for key entry, one FTE Revenue Processing Technician I (Range 10, Step L) per 19,000 returns reviewed and one FTE Revenue Processing Technician I (Range 10, Step L) per 2,400 pieces of correspondence.

DOR provided an estimate of the administrative cost to implement this proposal, including the two additional FTE and related equipment and expense, totaling \$90,618 for FY 2010, \$98,721 for FY 2011, and \$101,683 for FY 2012.

Oversight has estimated that qualifying vehicle sales for this proposal would be 2,779 for FY 2010, and assumes that DOR could process the returns with those additional deductions using existing resources. If unanticipated costs are incurred or if multiple requests are implemented which increase the DOR workload, resources could be requested through the budget process.

DOR also provided an estimate of the IT cost to implement the proposal.

The Office of Administration, Information Technology Services Division (ITSD/DOR) estimates that this proposal could be implemented utilizing two existing CIT III for one month for modifications to the MINITS system and three existing CIT III for two months for system modifications to COINS, Café, Corp E-file, and the EDW interface at an estimated total cost of \$31,087. ITSD/DOR assumes the IT portion of this proposal could be completed with existing resources; however, if priorities shift, additional FTE or overtime would be needed.

ASSUMPTION (continued)

Oversight found an Automotive News report of 315,761 USA hybrid vehicle sales for 2008, a 9.9% reduction from 2007 sales. Oversight will use the BAP estimate of the percentage of hybrid sales for Missouri.

- * Accordingly, Missouri sales would represent $(2,568/291,129) = 0.88\%$ of USA sales.
- * Total hybrid sales for Missouri would be $(315,761 \times 0.88\%) = 2,779$ vehicles.
- * Those sales would result in $(2,779 \times \$2,000) = \$5,558,000$ additional deductions.
- * The additional deductions would result in $(\$5,558,000 \times 6\%) = \$333,480$ in lost revenue.

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. Oversight notes that hybrid vehicle purchasers could switch to qualifying vehicles made in the United States, and that foreign manufacturers could move production of qualifying vehicles to the United States. Those market changes could increase the fiscal impact of this proposal. Oversight notes that the decline in hybrid vehicle sales from 2007 to 2008 volume may not indicate any future pattern in sales.

Oversight will indicate a reduction in revenues for this proposal of more than \$100,000 for FY 2010, FY 2011, and FY 2012.

This proposal could reduce total state revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
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GENERAL REVENUE FUND

<u>Revenue reduction</u> - Hybrid vehicle tax deduction *	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
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ESTIMATED NET EFFECT ON GENERAL REVENUE FUND *	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
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* Calculated impact was \$333,340.

<u>FISCAL IMPACT - Local Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
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<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

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

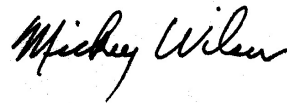
FISCAL DESCRIPTION

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

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 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
February 3, 2009