COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1403-01
Bill No.: HB 627
Subject: Taxation and Revenue - Property; Elderly; Tax Credits; Taxation and Revenue - General; Taxation and Revenue - Income
Type: Original
Date: February 6, 2017

Bill Summary: This proposal would authorize a tax credit program for senior citizen property owners.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2022)
General Revenue	(Less than $15,776,164 to Less than 22,796,164)	(Less than $31,262,781 to Less than $45,302,781)	(Less than $46,814,449 to Less than $67,874,449)	(Less than $77,919,472 to Less than $113,019,472)
Total Estimated Net Effect on General Revenue	**(Less than $15,776,164 to Less than 22,796,164)**	**(Less than $31,262,781 to Less than $45,302,781)**	**(Less than $46,814,449 to Less than $67,874,449)**	**(Less than $77,919,472 to Less than $113,019,472)**

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2022)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2022)
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2022)
General Revenue	4 FTE	4 FTE	4 FTE	4 FTE
Total Estimated Net Effect on FTE	**4 FTE**	**4 FTE**	**4 FTE**	**4 FTE**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2022)
Local Government	**$0**	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** assume this proposal would reduce Total State Revenue by allowing taxpayers to receive a tax credit for the amount of real property tax. Taxpayers would become eligible for the program the calendar year following the year they become eligible for full social security retirement benefits, and DOR officials estimate a revenue reduction of $95.3 million per year when fully implemented.

Section 135.1915, RSMo

Beginning January 1, 2017, qualified taxpayers could claim a tax credit for real property taxes paid on their primary residence the year after they reach the age where they are eligible for full social security retirement benefits. The tax credit would be phased in over a period of five years as follows:

First Year:	Tax credit cannot exceed 20% of the real property tax paid
Second Year:	Tax credit cannot exceed 40% of the real property tax paid
Third Year:	Tax credit cannot exceed 60% of the real property tax paid
Fourth Year:	Tax credit cannot exceed 80% of the real property tax paid
Fifth Year and after:	Tax credit may claim 100% of the real property tax paid

The proposal would prohibit a taxpayer from receiving this tax credit and a credit under section 135.020 in the same year.

DOR officials stated that according to the United States Census Bureau, the average median real estate taxes paid on homes was $1,497 in Missouri in 2015. In addition, approximately 150,767 home owners in Missouri were age 65 or older. Based on this information, the Department estimates that these homeowners paid property taxes in the amount of $225.7 million ($1,497 x 150,767). The Center for Housing Policy estimates approximately 50 percent of homeowners older than 65 years of age own their home with no mortgage

Based on Property Tax Credit claims filed for the 2015 tax year, the Department determined approximately 65,000 returns were filed by homeowners over the age of 65 accounting for Property Tax Credits in the amount of $35.1 million.

ASSUMPTION (continued)

Taxpayers will not be able to claim both the new credit identified in this legislation and the Property Tax Credit. The Department assumes that the new credit will be at least as beneficial to taxpayers as the Property Tax Credit and those taxpayers that switch from the Property Tax Credit to the new credit will reduce the impact of the Property Tax Credit on Total State Revenue.

Using this information, the Department estimates a potential impact to Total State Revenue of $95.3 million.

Property Taxes Paid:	$225.7 million
Potential Credit:	$225.7 million x 50 percent = $112.9 million
Potential PTC reduction:	$35.1 million x 50 percent = $17.6 million
Net Impact of new credit:	$95.3 million

Administrative Impact

DOR officials assume the Department would require form and programming changes to implement the provisions of this legislation. Personal Tax would require one additional Revenue Processing Technician I (Range 10, Step L) for every 4,000 credits claimed, one additional Revenue Processing Technician I for every 5,000 errors, and one additional Temporary Tax Employee for every 10,705 claims filed. Collections and Tax Assistance would likely receive additional customer contacts and adjustment notices, and would require two additional Tax Collection Technicians I (Range 10, Step L) for every additional 15,000 contacts annually on the Delinquent and 15,000 contacts on the non-delinquent tax lines. Each technician would require CARES equipment and license.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional DOR 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 and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

ASSUMPTION (continued)

IT Impact

DOR officials assume the Integrated Tax System would require an additional $65,426 to implement the provisions of this legislation.

Oversight will include the DOR estimate of IT cost in this fiscal note.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** provided the following response.

This proposal would create a refundable tax credit for the amount of property taxes paid by taxpayers who are eligible to receive full social security benefits beginning with tax year 2017. Eligible taxpayer must own the residence with no outstanding obligations. Taxpayers may claim tax credits on up to 20% of property taxes paid in the first year they qualify for the credit. The percentage of property taxes paid covered by the tax credit increases yearly, until the credit covers 100% of paid property taxes in the fifth year that an individual qualifies.

Using data provided by the United States Census Bureau, the average median real estate taxes paid on homes was $1,497 in Missouri during 2015. In addition, approximately 150,767 home owners in Missouri were age 65 or older. According to information provided by the Center for Housing Policy, 50% of individuals age 65 and older own their homes with no mortgage. Based on the above information, B&P estimates that approximately $112.8 million in real estate taxes paid could be offset by this tax credit.

BAP officials note that this bill does not allow any taxpayers to claim both this credit and the Property Tax Credit. Based on information provided by DOR, there was approximately $17.5 million in PTCs paid during FY 2016 that could also be eligible for the tax credit in this proposal. BAP officials stated they cannot estimate the number of individuals receiving the PTC who may choose to switch to the newly created tax credit under this proposal.

Therefore, BAP officials estimated that this proposal could reduce Total State Revenue by $19.1 million to $22.6 million in FY 2018. Once fully implemented in FY 2022, this proposal could reduce Total State Revenue by $95.3 million to $112.8 million annually.

ASSUMPTION (continued)

BAP officials provided a table showing their estimated impact for this proposal.

Fiscal Year	Loss to GR	
	Min Loss	Max Loss
2018	$19,100,000	$22,600,000
2019	$38,100,000	$45,100,000
2020	$57,200,000	$67,700,000
2021	$76,200,000	$90,300,000
2022	$95,300,000	$112,800,000

Oversight notes that the current minimum age for full social security benefits is 66, so only those persons who are aged 67 or older and meet the other requirements of the proposal would be eligible. Therefore the cost of the program would be less than the DOR calculated maximum of $112.9 million.

Further, the current property tax credit is available to homeowners who have a mortgage or other debt but it is limited to $1,100 in property taxes per filer, and is also phased out based on the filer's income. Oversight assumes some homeowners would qualify for both programs but we also assume those filers who qualify for both programs would receive more benefit from the proposed credit than from the current program. Therefore, the reduction in the current program could be minimal.

For fiscal note purposes Oversight will indicate a range of revenue reduction for this program from less than ($112,850,000 - $35,100,000) = $77,750,000 (all eligible homeowners from the current program could use the new program) to less than the maximum calculated program cost (if no homeowners would change from the old to the new) of $112,850,000. The revenue reduction will be phased in over five years with an additional 20% of the maximum available each year.

Oversight notes the program would become effective January 1, 2017 and the impact would begin January 2018 (FY 2018) when tax returns are filed for 2017. Oversight is aware that some filers would reduce withholding or estimated tax payments in anticipation of a tax credit but will indicate the full impact of the proposal in the year tax returns would be filed.

ASSUMPTION (continued)

Tax Year	Calendar Year	Percentage Available	Minimum Cost	Maximum Cost
2017	2018	20	$15,550,000	$22,570,000
2018	2019	40	$31,100,000	$45,140,000
2019	2020	60	$46,650,000	$67,710,000
2020	2021	80	$62,200,000	$90,280,000
2021	2022	100	$77,750,000	$112,850,000

According to officials from the **Office of the Secretary of State (SOS)**, 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 **Joint Committee on Administrative Rules** state this legislation is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **University of Missouri - Economic and Policy Analysis Research Center** stated they were not able to estimate the fiscal impact of this proposal due to a lack of data on property that is free of obligations, and the assessed valuation of properties which might meet the criteria in the proposal.

<u>FISCAL IMPACT - State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020	Fully Implemented (FY 2022)
GENERAL REVENUE FUND				
<u>Administrative Cost</u> - Department of Revenue				
Personnel	($85,204)	($106,502)	($107,598)	($110,850)
Benefits	($44,106)	($53,703)	($54,243)	($55,882)
Equipment and expense	<u>($31,428)</u>	<u>($2,576)</u>	<u>($2,608)</u>	<u>($2,740)</u>
Total	($160,738)	($162,781)	($164,449)	($169,472)
<u>IT cost</u> - Department of Revenue	($65,426)	$0	$0	$0
Revenue reduction - Property tax credit program	(Less than $15,550,000 to Less than <u>$22,570,000)</u>	(Less than $31,100,000 to Less than <u>$45,140,000)</u>	(Less than $46,650,000 to Less than <u>$67,710,000)</u>	(Less than $77,750,000 to Less than <u>$112,850,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**(Less than $15,776,164 to Less than <u>$22,796,164)</u>**	**(Less than $31,262,781 to Less than <u>$45,302,781)</u>**	**(Less than $46,814,449, to Less than <u>$67,874,449)</u>**	**(Less than $77,919,472 to Less than <u>$113,019,472)</u>**
FTE Change - DOR	4 FTE	4 FTE	4 FTE	4 FTE

<u>FISCAL IMPACT - Local Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020	Fully Implemented (FY 2020)
	<u>$0</u>	**<u>$0</u>**	**<u>$0</u>**	**<u>$0</u>**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

Beginning January 1, 2017, this bill authorizes a tax credit phased-in at 20% increments over five years to equal 100% of the amount of real property tax paid on a senior citizen's primary residence. To qualify, the senior citizen or his or her spouse must be eligible for full social security retirement benefits the year prior to the credit and must have owned his or her home free of any obligation for at least two years. A senior citizen may move and waive the two year ownership requirement, provided the new primary residence is wholly owned and free of any obligation. The refundable credit cannot be sold or transferred.

The bill specifies that a taxpayer cannot claim this credit and the senior citizens property tax credit.

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
Joint Committee on Administrative Rules
Department of Revenue
University of Missouri
    Economic and Policy Analysis Research Center

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