

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0960S.01I
 Bill No.: SB 84
 Subject: Taxation and Revenue - Income; Tax Credits; Housing
 Type: Original
 Date: March 31, 2021

Bill Summary: This proposal would authorize a tax credit for the purchase of certain homes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue*	\$0	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue	\$0	(Unknown)	(Unknown)

*A \$5,000 per house tax credit would only require 50 qualifying homes to reach the \$250,000 threshold. Oversight assumes more than this, but does not have the information to determine an estimate of the number of transactions that would meet all of the stipulated criteria.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>Other State Funds</u>	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on FTE	0	0	0

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation could reduce General Revenue (GR) and Total State Revenue (TSR) and could impact the calculation under Article X, Section 18(e).

Section 99.720 – Tax Credit for Purchase of Blighted Property

Officials from **B&P** state this proposed legislation would create a \$5,000 income tax credit for a qualified first-time home buyer who purchases a home in a designated blighted area; there is no aggregate cap on the amount of credits that may be issued annually.

According to the MHDC, there were 2,198 borrowers that participated in the First Place Homebuyer Program in 2019, a program which provides assistance to similar home buyers through cash payments and reduced interest rates. B&P does not have an estimate of how many of these participants might have purchased homes in blighted areas. Therefore, B&P estimates this program could reduce GR and TSR up to \$10,990,000 annually ($\$5,000 * 2,198$).

Data from the MO Realtors shows that there were 92,105 homes sold in Missouri during 2019. According to information from the National Association of Realtors, 33% of all home buyers were first-time home buyers. There is no way to determine how many of these homes might have been located in a blighted area, however an article from 2012 indicated that more than a third of Missouri is classified as blighted. Based on these numbers, B&P notes the potential participants could significantly exceed the 2,198 borrowers included in the estimate above.

Officials from the **Missouri Department of Revenue (DOR)** state, starting January 1, 2022, this proposed legislation would allow a tax credit in an amount equal to five thousand dollars (\$5,000) for purchasing property that meets certain requirements. The taxpayer must be a first time homebuyer and have purchased the property within one year of receiving the credit and have an income below thresholds established in Section 32.105. The criteria for receiving the tax credit also includes the following: the property must have been vacant at least 6 months, be eligible for tax abatement by the city of St. Louis, and be blighted.

The Missouri Housing Development Commission has a program for first time homebuyers meeting certain low income thresholds and for people stepping up in homeownership. The program provides loan guarantees. In Fiscal Year 2019, the Missouri Housing Development Commission provided secured loans to 2,198 individuals with an average mortgage of \$126,688. The average down payment on these homes was \$5,068.

DOR notes that not all of the 2,198 would have been eligible for this program given the fact that this proposed legislation appears to only impact those purchasing homes in the St. Louis area. If only 25% of the people received the tax credit then the credit would cost \$2,747,500 $((2,198/4) * \$5,000)$.

This program starts January 1, 2022, therefore the first returns filed claiming the credit will be in January 2023 (Fiscal Year 2023). DOR assumes this could result in a loss to GR of \$2,747,500 to \$10,990,000 $(2,198 * \$5,000)$.

DOR anticipates the need for one (1) FTE Associate Customer Service Representative for every 6,000 tax credits redeemed, one (1) FTE Associate Customer Service Representative for every 4,000 tax credit transfers with CISCO phones and licenses, and one (1) FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated.

Oversight notes this proposed legislation states that the tax credit created shall **not** be assignable (transferable). In addition, DOR's estimated number of individuals that could potentially qualify for the tax credit created is less than the threshold(s) established by DOR warranting additional FTE. Therefore, Oversight assumes DOR can absorb the cost(s) associated with the tax credit created with existing resources. Should the number of tax credit redemptions and/or amount of errors and correspondence generated be significant, DOR may seek additional FTE through the appropriation process.

Oversight notes this proposed legislation would allow a first-time home buyer who enters into an agreement with the "authority" and has met the income requirements set forth in this proposed legislation and purchases a home that is:

- 1) eligible for a tax abatement certificate under Section 99.700,
- 2) has been vacant for at least six months prior to the purchase,
- 3) be blighted in part because the governing body, or its subordinate department, of the municipality in which the property is located has:
 - o (a) determined that because of its deteriorated physical condition, the property is a dangerous building and thereby uninhabitable and
 - o (b) issued property maintenance code violations, and the property is still in violation,
- 4) likely to meet the definition of affordable housing unit as defined under Section 32.105 to be awarded a tax credit equal to \$5,000 to be used to offset the taxpayer's tax liability imposed under Chapter 143.

The tax credit created under this proposed legislation shall **not** be refunded to the taxpayer, but may be carried back to any of the taxpayer's three (3) prior tax years or carried forward for five (5) subsequent tax years.

Oversight notes, based on information published by [Missouri Realtors](#), the total number of homes sold in 2017, 2018, 2019, and 2020 were:

Calendar Year	Number of Homes Sold
2017	87,851
2018	101,877
2019	92,105
2020	87,738

Oversight notes the four (4) year average number of homes sold totals 92,393 homes each year.

Oversight further notes, based on data published by the [National Association of Realtors](#), first-time home buyers make up approximately 31% of all home buyers. Therefore, Oversight estimates that, of the (average) 92,393 homes sold each year, approximately 28,642 (92,393 * 31%) could have been purchased by first-time home buyers.

Per an article published by the [Show-Me Institute](#), approximately 24,870 square miles, or one third, of Missouri falls within enhanced enterprise zones, areas that must be declared “blighted.”

If one third of the estimated number of homes purchased by first-time home buyers are located in “blighted” areas, Oversight estimates 9,547 (28,642 * 33.33%) purchases may qualify for the tax credit created. If this assumption is accepted, Oversight estimates GR and TSR could be reduced by \$47,735,000 annually (9,547 * \$5,000).

Oversight is unable to determine: 1) how many first-time home buyers would meet the income requirements set forth in this proposed legislation, 2) the number of homes actually designated as blighted; 3) the number of homes that would qualify for a tax abatement certificate under Section 99.700, and 4) how many of the homes have been vacant for six months.

Therefore, **Oversight** will assume the fiscal impact of this new program is unknown. Oversight notes only 50 qualifying homes per year would be necessary to reach the \$250,000 threshold for referral to Fiscal Oversight. Oversight assumes this count is probable.

Oversight notes the tax credit created would be for all tax years beginning on or after January 1, 2022. Oversight notes Tax Year 2022 tax returns will not be filed until after January 1, 2023 (Fiscal Year 2023). Therefore, Oversight will report the aforementioned revenue reduction to GR beginning in Fiscal Year 2023.

Oversight notes the provisions of this proposed legislation would sunset December 31st six years after the effective date of this proposed legislation, unless reauthorized by the General Assembly.

Officials from the **City of Ash Grove** anticipate this proposed legislation will cause a fiscal impact.

Officials from the **City of Hale** anticipate this proposed legislation will cause a fiscal impact.

Officials from the **Missouri Department of Economic Development**, the **Missouri State Tax Commission**, the **City of Ballwin**, the **City of Claycomo**, the **City of Corder**, the **City of Kansas City**, the **City of Springfield**, and the **St. Louis Budget Division** do not anticipate this proposed legislation will cause a fiscal impact on their organizations. Oversight does not have any information to the contrary. Therefore, Oversight will not report a fiscal impact for these organizations.

<u>FISCAL IMPACT –</u> <u>State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE FUND			
<u>Revenue Reduction –</u> Section 99.720 – Tax Credit For First-Time Home Buyers Of Homes In Blighted Areas	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

<u>FISCAL IMPACT –</u> <u>Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

This proposed legislation could impact any small business operating as a home selling agency whose home listings include vacant homes, deteriorated homes, or uninhabitable homes provided the number of purchases of such homes increases as a result of this proposed legislation.

FISCAL DESCRIPTION

For all tax years beginning on or after January 1, 2022, this act authorizes a tax credit in the amount of \$5,000 for a taxpayer that is a first-time home buyer purchasing an eligible blighted property, as described in the act. To be eligible, a taxpayer shall also enter into an agreement with the land clearance for redevelopment authority to use such property as a principal residence for at least two years following rehabilitation of the property, shall purchase the property within one year or contract for purchase within six months of applying for a tax credit, and shall meet certain income requirements as described in the act.

The tax credit authorized by this act shall not be refundable or transferable, but may be carried back for three years or carried forward for five years.

This act shall sunset after six years unless reauthorized by the General Assembly.

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 Administration – Budget & Planning Division
Missouri Department of Economic Development
Missouri Department of Revenue

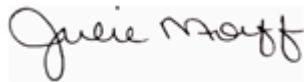
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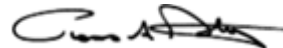
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Missouri State Tax Commission
City of Ash Grove
City of Ballwin
City of Claycomo
City of Corder
City of Hale
City of Kansas City
City of Springfield
City of St. Louis Budget Division



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March 31, 2021



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March 31, 2021