HB 18-1267

Legislative Council Staff
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REVISED FISCAL NOTE

(replaces fiscal note dated March 23, 2018)

Drafting Number:	LLS 18-0778	**Date:**	May 2, 2018
Prime Sponsors:	Rep. Gray; McKean Sen. Tate	**Bill Status:**	Senate Finance
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Bill Topic: INCOME TAX CREDIT FOR RETROFITTING HOME FOR HEALTH

Summary of Fiscal Impact:

- ☒ State Revenue
- ☒ State Expenditure
- ☐ State Transfer
- ☒ TABOR Refund
- ☐ Local Government
- ☐ Statutory Public Entity

This bill allows taxpayers to claim a state income tax credit for a portion of qualified costs incurred while retrofitting their residence for the purpose of improving accessability, increasing visitability, or allowing qualified individuals to age in place. The credit is available for tax years 2019 through 2023, resulting in General Fund reductions that will be phased in over at least 10 years. The bill increases state expenditures beginning in FY 2018-19 and are expected to be ongoing until at least FY 2023-24.

Appropriation Summary: For FY 2018-19, the bill requires an appropriation of $132,328 and 1.0 FTE to the Division of Housing in the Department of Local Affairs.

Fiscal Note Status: This fiscal note reflects the reengrossed bill. It has been revised to correct errors in Table 4.

Table 1
State Fiscal Impacts Under HB 18-1267

		FY 2018-19	FY 2019-20	FY 2020-21
Revenue	General Fund	($100,000)	($300,000)	($500,000)
Expenditures	General Fund	$132,328	$73,206	$68,288
	Centrally Appropriated	$33,614	$33,479	$34,070
	Total	**$165,942**	**$106,685**	**$102,358**
	Total FTE	**1.0 FTE**	**1.1 FTE**	**1.1 FTE**
TABOR Refund	General Fund	($100,000)	($300,000)	Not estimated

Summary of Legislation

This bill allows taxpayers to claim a state income tax credit for a portion of qualified costs incurred while retrofitting their residence for the purpose of improving accessability, increasing visitability, or allowing qualified individuals to age in place. The bill defines a qualified individual as an individual with a family income at or below 400 percent of the federal poverty level, the individual's spouse, or a dependent of the individual.

The credit is available for tax years 2019 through 2023 and the amount is equal to the cost of the retrofit or $5,000, whichever is less. The bill caps the total amount of credits that can be issued in each year to $1 million. The credit certificates will issued in the order in which they are requested. The credit is neither refundable nor transferable but may be carried forward for a period not to exceed five years.

The Division of Housing (DOH) in the Department of Local Affairs will be responsible for certifying that the taxpayer meets the requirements for the income tax credit. The DOH will also issue tax credits and track and ensure that the total amount of credits issued does not exceed the $1 million annual cap. Finally, the DOH will work with other stakeholders to establish any additional requirements for the income tax credit.

The income tax credit is repealed effective December 31, 2028.

Background

Federal poverty level. The federal poverty level (FPL) is a measure of income used to determine eligibility for certain federal and state programs and benefits (e.g. Medicaid). The income amounts vary based on the number of individuals in the household and are annually adjusted for inflation. Table 2 shows the 2018 guidelines for family income at or below 400 percent of the FPL, the threshold for eligibility for the credit under this bill.

Table 2
2018 Poverty Guidelines

Persons in Household	400 Percent of Federal Poverty Guidelines (FPL)
1	$48,560
2	$65,840
3	$83,120
4	$100,400
5	$117,680
6	$134,960
7	$152,240
8	$169,520

Source: The Department of Health and Human Services

Other states. Virginia offers an income tax credit designed to improve accessability and visitability for residential units. Tax credits are available for up to $5,000 for approved retrofitting costs. The total amount of credits that can be issued is capped at $1 million per year. The credit is available for both individuals and contractors. From 2011 to 2016, an average of 260 individual applicants were issued income tax credits. The average amount of each tax credit was $3,850 per year per taxpayer.

State Revenue

This bill will reduce General Fund revenue by $100,000 in FY 2018-19 (half-year impact),$300,000 in FY 2019-20, and $500,000 in FY 2020-21.

Assumptions. This fiscal note assumes that the DOH will issue the full $1 million in credits in each year the credit is available. However, the amount and timing of when credits are claimed are dependent on a number of factors, such as the economy and individual tax liabilities in any given year. Therefore, the revenue impacts of the tax credit will vary.

Table 3 shows state General Fund revenue reductions under the following assumptions:

- On average, the DOH will issue 260 income tax credits each year, with an average amount of $3,846 per credit. These estimates are based on the experience of a similar tax credit in Virginia. By comparison, various remodeling sources show the average cost of installing a ramp or walk-in bathtub is $3000 to $5,000; and

- The issued income tax credit will be claimed over a five year period, approximately $769 each year. Based on data from the Colorado Statistics of Income report, the average state income tax liability for taxpayers with a federal adjusted growth income between $25,000 to $50,000 was approximately $800 in 2013, the latest year for which data are available.

Table 3
General Fund Revenue Reduction Under of HB 18-1267

Fiscal Year	General Fund Revenue Impact
FY 2018-19 (half-year)	($100,000)
FY 2019-20	($300,000)
FY 2020-21	($500,000)
FY 2021-22	($700,000)
FY 2022-23	($900,000)
FY 2023-24	($900,000)
FY 2024-25	($700,000)
FY 2025-26	($500,000)
FY 2026-27	($300,000)
FY 2027-28 (half-year)	($100,000)
Total	**($5 million)**

To the degree that the full amount of tax credit is not utilized as early as assumed here, reductions in General Fund revenue will be pushed into future years. Conversely, if credits are claimed sooner, General Fund reductions will occur earlier than what is shown in Table 3.

TABOR Refund

This bill reduces state revenue from the General Fund, which will reduce the amount of money required to be refunded under TABOR for FY 2018-19 and FY 2019-20.

Since the bill reduces revenue to the General Fund and the refund obligation by equal amounts, there is no net impact on the amount of money available in the General Fund for the budget. However, the bill will reduce money for the General Fund budget in the future during years when the state does not collect revenue above the TABOR limit.

State revenue subject to TABOR is not estimated for years beyond FY 2019-20.

State Expenditures

This bill increases state expenditures by $165,942 and 1.0 FTE in FY 2018-19 and $106,685 and 1.1 FTE in FY 2019-20, with similar ongoing impacts through at least FY 2023-24. These costs include personal service and computer programing costs for the Department of Local Affairs and the Department of Revenue, as shown in Table 4.

Department of Local Affairs, Division of Housing. In FY 2018-19, the DOH will require $165,942 and 1.0 FTE for a program assistant to review, issue and certify that the taxpayer meets the requirements for the income tax credit. These costs also include one-time computer programing expenses of $65,508, which will be reappropriated to the Office of Information and Technology (OIT). The program assistant is expected to begin work with stakeholders on program design details and establish any additional requirements before the income tax credit becomes available in 2019. The DOH will require 1.0 FTE each year until FY 2023-24. Tax credit issuances under this bill cease on December 31, 2023.

Department of Revenue. In FY 2019-20, General Fund expenditures for the Department of Revenue will increase by $13,360. These costs include one-time programing costs to add the new state income tax credit to the GenTax accounting system, which is programed by a contractor at a rate of $250 per hour. These changes are expected to increase General Fund expenditures by $1,250, representing 5 hours of programing. The programming is tested by the DOR to ensure the system is functioning properly. This testing will require one-time funding of $3,838. Other operating costs in FY 2019-20 include expenditures to update the state's tax form optical recognition software and document management tasks provided by the Department of Personnel and Administration (DPA) and for the DOR to compile data for annual reports. These expenses will total $2,634, of which $1,356 are reappropriated to the DPA.

The DOR will require 0.1 FTE from FY 2019-20 until at least FY 2027-28 for taxpayer services to administer the tax credit. An estimated 280 taxpayers are expected to claim the credit each year it is available. Carryforward credits may extend administration costs beyond the year the income tax credit is available.

Table 4
Expenditures Under HB 18-1267

Cost Components	FY 2018-19	FY 2019-20
Department of Local Affairs (Program Assistant)		
Personal Services	$55,496	$57,157
Operating Expenses and Capital Outlay Costs	$11,324	$3.887
Computer Programming (Office of Information	$65,508	-
Centrally Appropriated Costs*	$33,614	$32,281
FTE – Personal Services	1.0 FTE	1.0 FTE
Dept (Subtotal)	**$165,942**	**$93,325**
Department of Revenue		
Personal Services (Tax Examiner)	-	$4,440
Computer System Changes	-	$5,088
Other Operating Costs	-	$2,634
Centrally Appropriated Costs*	-	$1,198
FTE – Personal Services	-	0.1 FTE
Dept (Subtotal)	**-**	**$13,360**
Total	**$165,942**	**$106,685**
Total FTE	**1.0 FTE**	**1.1 FTE**

** Centrally appropriated costs are not included in the bill's appropriation.*

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which include employee insurance and supplemental employee retirement payments, are estimated to be $33,614 in FY 2018-19 and $33,479 in FY 2019-20.

Effective Date

The bill takes effect August 8, 2018, if the General Assembly adjourns on May 9, 2018, as scheduled, and no referendum petition is filed.

State Appropriations

For FY 2018-19, the bill requires a General Fund appropriation of $132,328 and 1.0 FTE to the Division of Housing in the Department of Local Affairs, of which $65,508 will be reappropriated to the Office of Information and Technology.

State and Local Government Contacts

Information Technology	Local Affairs
Personnel	Revenue