Legislative Analysis

INCOME TAX CREDIT FOR HOME ACCESSIBILITY PURCHASE OR IMPROVEMENT

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Senate Bill 184 (S-1) as passed by the Senate
Sponsor: Sen. Vincent Gregory
House Committee: Tax Policy
Senate Committee: Finance
Complete to 3-5-18

BRIEF SUMMARY:

Senate Bill 184 would amend the Income Tax Act to allow a taxpayer to claim an income tax credit in a specific amount related to either the purchase of a home or the retrofit of an existing home as long as the purchase or retrofit was designed to improve accessibility or provide visitability.

DETAILED SUMMARY:

Beginning with tax years after January 1, 2018 and before January 1, 2023, a taxpayer who purchased a ***qualified principal residence*** or retrofitted or hired someone to retrofit the taxpayer's ***principal residence*** or the principal residence of a qualifying relative, provided that the retrofitting was designed to improve ***accessibility*** or provide ***visitability***, could claim a credit against the income tax an amount equal to 4.0% of the total purchase price paid for the qualified principal residence or 50% of the total amount spent for the retrofitting. The amount of the credit could not exceed $5,000, for either a purchase or retrofit, and a taxpayer could only claim one credit for the same principal residence.

> ***Principal residence*** would mean property exempt under the General Property Tax Act's Principal Residence Exemption section (MCL 211.7cc).
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> ***Qualified principal residence*** would mean a principal residence that is designed to improve accessibility or provide visitability.
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> ***Accessibility*** would mean that the principal residence is designed to provide the taxpayer, an individual who is related to the taxpayer or who resides with the taxpayer, or a qualifying relative, who has one or more physical limitations in daily life activities as verified by that individual's physician, with the ability to enter, exit, and use the property with and without assistance. An individual is related to the taxpayer if that individual is a spouse, brother or sister (whether of the whole or half blood or by adoption), ancestor, or lineal descendant of that individual or related person.
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> ***Qualifying relative*** would mean a son or daughter of the taxpayer, either as a natural child, stepchild, foster child, or adopted child.

> ***Visitability*** would mean a principal residence designed to include at least 1 zero-step entrance, at least 1 full or half bathroom on the main floor, and a minimum of 32 inches of clear passage space for all doorways on the main floor.

To qualify for the credit, a taxpayer would have to request certification from the Michigan State Housing Development Authority (MSHDA), in a form and manner prescribed by MSHDA, no later than January 10 of the tax year after the tax year for which the credit is to be claimed. MSHDA would have to approve or deny all requests for certification and issue the certificates no later than February 10. A taxpayer could not claim a credit unless MSHDA had issued a certificate to the taxpayer. The taxpayer would have to attach the certificate to his or her annual tax return.

The certificate would have to specify all of the following:

- The purchase price of the qualified principal residence or the total amount expended by the taxpayer to retrofit the principal residence into a qualified principal residence during the tax year.
- The total amount of the credit that the taxpayer is allowed to claim.

The total amount of credits MSHDA could certify could not be more than $1.0 million in any tax year. Each year, MSHDA would allocate $500,000 in credits for purchases and $500,000 in credits for retrofits. If the amount of credits approved in a single tax year for purchases were less than $500,000, the MSHDA director would allocate the remaining balance of those credits for retrofits. Similarly, if the amount of credits approved for retrofits were less than $500,000, the remaining balance would be allocated for purchases. If requests for certification for the credit exceeded the amount allocated by the director for a tax year, MSHDA would have to issue the credits prorated based on the amount of tax credits approved for each taxpayer and the amount of credits allocated by the director.

The taxpayer would have to claim the credit for the same tax year in which the qualified principal residence was purchased or the retrofitting of the principal residence was completed. If the amount of credit allowed exceeded the tax liability of the taxpayer, the portion of the credit that exceeded the tax liability of the taxpayer would not be refunded, but could be carried forward to offset tax liability in subsequent tax years for a period of up to 7 years or until used up, whichever occurred first.

Proposed MCL 206.277

FISCAL IMPACT:

As written, the bill would reduce income tax revenue by a maximum of $5.0 million given the limitation on the dollar amount of credits that can be awarded by MSHDA. The credits are non-refundable, although any unused portion may be carried forward into subsequent tax years. Therefore, it’s likely that during the first two or three years the annual fiscal impact would be growing although potentially below $1.0 million. The annual fiscal impact will grow as additional credits are awarded until sometime after TY 2022, at which point no new credits would be awarded. From that point on the revenue impact will taper off to $0 over the next few years.

The provisions of the bill would increase costs due to the requirements of the new certification process. The certification process would require MSHDA to perform site inspections, provide certifications, and process the credits. It is uncertain whether MSHDA would need to hire additional staff to perform functions required under the bill. To provide context, according to the Thirty-Eighth Annual Workforce Report provided by the Civil Service Commission, the average cost of an employee is $107,000 including salary and fringe benefits.

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