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BILL ANALYSIS

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Senate Bill 184 (as introduced 2-23-17)
Sponsor: Senator Vincent Gregory
Committee: Finance

Date Completed: 5-8-17

CONTENT

The bill would amend the Income Tax Act to allow a taxpayer to claim a credit against the individual income tax for a portion of the cost of buying a qualified principal residence or for the retrofitting of the taxpayer's principal residence for the purpose of improving accessibility or providing universal visitability.

Specifically, for tax years beginning on and after January 1, 2018, and before January 1, 2023, the bill would allow a taxpayer who purchased a qualified principal residence or retrofitted or hired someone to retrofit the taxpayer's principal residence, provided that the retrofitting was designed to improve accessibility or provide visitability, to claim a tax credit in 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 of the taxpayer's principal residence. The amount of the credit allowed could not exceed $5,000. A taxpayer could not claim more than one credit for the same principal residence.

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 as prescribed by MSHDA, by January 10 of the tax year following the tax year for which the credit was to be claimed. The Authority would have to approve or deny all requests for certification and issue the certificates no later than February 10 of the same tax year. The credit could be claimed only if the taxpayer received a certificate from MSHDA and attached it to the annual return filed under the Act.

The certificate would have to specify both of the following:

-- The purchase price of the qualified principal residence or the total amount spent to retrofit the taxpayer's principal residence into a qualified residence during the tax year by the taxpayer.
-- The total amount of the proposed credit that the taxpayer was allowed to claim for the designated tax year.

The total amount of credits that MSHDA could certify could not exceed $1.0 million in any one tax year. Each year, MSHDA would have to allocate $500,000 in credits for the purchase of qualified principal residences and $500,000 in credits for the retrofitting of principal residences. If the amount of tax credits approved in a single year were less than $500,000 for the purchase of qualified principal residences or the retrofitting of existing ones, the MSHDA Director would have to allocate the remaining balance of those tax credits toward either the retrofitting of principal residences or the purchase of qualified principal residences, respectively. In the event that the requests for certification exceeded the amount allocated by the Director for that tax year, MSHDA would have to issue the tax credits pro rata based upon the amount of credits approved for each taxpayer and the amount of credits allocated by the Director.

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

"Qualified principal residence" would mean a principal residence that is designed to improve accessibility or provide visitability.

"Accessibility" would mean that a residence is designed to provide the taxpayer or an individual who is related to the taxpayer or who resides with the taxpayer, 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. For this purpose, an individual would be related to the taxpayer if the individual were a spouse, brother or sister (whether whole or half, or by adoption), ancestor, or lineal descendant of the individual or related person.

The bill would define "visitability" as a residence designed to include all of the following:

-- At least one zero-step entrance.
-- At least one full or half bathroom on the main floor.
-- All doorways on the main floor with a minimum of 32 inches of clear passage space.

Proposed MCL 206.277 Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bill would reduce General Fund revenue by an amount that would increase over the first three or more years the bill was effective, eventually averaging approximately $1.0 million per year. While the bill would cap the amount of credits certified in a given year at $1.0 million, the credits would not be refundable and thus the portion that would actually be claimed in a given year would depend on affected taxpayers' liabilities. In tax year 2013, taxpayers exhibited an average liability before credits of approximately $1,665, implying that an average taxpayer would take roughly three tax years to fully exhaust the maximum credit and that the maximum cost imposed by the bill would not be reached for at least three years. Based on data from other states with similar credits, the average credit would likely be near the $5,000 maximum, and approximately 200 to 250 taxpayers would seek certification each year.

Because of the carry-forward provisions and timing differences between when a credit would be certified and when a taxpayer filed a return claiming the credit, the actual revenue loss could be greater or less than the $1.0 million limit under the bill. The limit would affect the credits certified by the Michigan State Housing Development Authority, not the credits paid by the Michigan Department of Treasury when it processes tax returns.

Although the School Aid Fund receives revenue from the individual income tax, credits are applied against the portion received by the General Fund. As a result, all of the reduction in revenue under the bill would lower General Fund revenue. Because the bill would not allow taxpayers to qualify for credits after tax year 2022, the reduction in revenue would gradually decline to zero sometime after fiscal year 2022-23 as taxpayers exhausted the portion of the credit carried forward.

In addition, the bill would result in significant costs to the Department of Treasury and the Michigan State Housing Development Authority. The Authority has indicated that, in order to issue the tax credits, it would have to set up a new system to perform sight inspections, issue certifications, and process the credits. Additional personnel would be required at MSHDA to conduct the inspections. The expenses could be $100,000 to $200,000. Thus, the administrative cost for the program would be an additional 10% to 20% of the $1.0 million in credits that could be certified yearly.

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