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BILL ANALYSIS



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Senate Bill 395 (as introduced 6-11-15)
Sponsor: Senator Vincent Gregory
Committee: Finance

Date Completed: 3-7-16

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 new residence or retrofitting an existing one for the purpose of improving accessibility and providing universal visitability while meeting the eligibility requirements established by the Michigan State Housing Development Authority.

Specifically, for tax years beginning on or after January 1, 2016, the bill would allow a taxpayer who purchased a new residence or retrofitted or hired someone to retrofit an existing residence designed to improve accessibility, provide universal visitability, and meet the eligibility requirements established by guidelines developed by the Michigan State Housing Development Authority (MSHDA), to claim a tax credit in an amount equal to 4.0% of the total purchase price paid for a new residence or 50% of the total amount spent for the retrofitting of an existing residence. The amount of credit received could not exceed \$5,000. The purchase or retrofitting of residential rental property would not be eligible for the credit.

To qualify for the credit, a taxpayer would have to request certification from MSHDA by February 28 of the tax year following the tax year for which the credit was to be claimed. 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 all of the following:

- The total amount of the purchase price of the new residence or the total amount spent to retrofit the existing residence during the tax year by the taxpayer.
- The total amount spent to purchase or retrofit each existing residence if different from the previous amount.
- 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 new residences and \$500,000 in credits for the retrofitting of existing residences. If the amount of tax credits approved in a single year were less than \$500,000 for the purchase of new 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 existing residences or the purchase of new 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 residence was purchased or the retrofitting 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.

"Accessibility" would mean that a residence is designed to provide the taxpayer, a relative of the taxpayer, or an individual 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 maximum credit would likely be near the maximum, and approximately 200 and 300 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.

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.

Fiscal Analyst: Cory Savino
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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.