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BILL ANALYSIS

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Senate Bill 184 (as reported without amendment)
Sponsor: Senator Vincent Gregory
Committee: Finance

Date Completed: 5-17-17

RATIONALE

Physical limitations or disabilities often create daily challenges for the affected individual and his or her family, friends, or care-givers. Moreover, individuals with physical limitations may be at risk of injuries or the loss of independence without some type of assistance. One way to provide an individual who has a physical limitation both safety and independence is through alterations to a residence, such as ramps for entry and exit to the home, grab bars for balance, or low counters for an individual using a wheelchair. However, these alterations can be expensive and might not be affordable for many individuals who want to retrofit a residence.

Apparently, there are few financial resources available to offset the costs of purchasing or retrofitting a residence that would accommodate a person with physical limitations. To address this concern, it has been suggested that a tax credit be made available to taxpayers who purchase or retrofit a residence to improve accessibility or visitability.

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 by 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 principal residences, 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

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Living with physical limitations or disabilities can be very costly. For example, according to Committee testimony, on average, the annual cost of living with multiple sclerosis is nearly $70,000 per person, including direct and indirect costs. At the same time, purchasing a home or retrofitting a residence to make it more accommodating for a person with disabilities is usually an expensive project or purchase. According to a survey cited in a 2015 article on expertise.com, the average cost for remodeling a home in the United States for disability accommodation is between $4,354 and $6,468, with a reported high of $20,252. Homeadvisor.com similarly reports remodeling costs for disability accommodation ranging between $1,537 and $9,159, with a high of $20,000 and an average of $5,328, based on 191 cost profiles.

Without the proper environment, individuals with physical limitations are at risk of being injured, by falling for example, or losing their independence. According to a 2015 State press release, the

Michigan Department of Health and Human Services stated that falls are the leading cause of fatal injury for older adults in the State. Data from 2013 reveal that falls resulted in the death of 836 people aged 65 or older in Michigan, and 14,233 people of that age group were hospitalized because of fall-related injuries. According to Committee testimony, over half of all people with multiple sclerosis experience a fall in a six-month period and between 30% and 50% fall multiple times, with those falls resulting in injuries over half of the time. Besides causing direct injury, falls can lead to increased use and cost of health care and rehabilitation services, as well as reduced fitness and mobility if the individual develops a fear of falling and therefore decreases activity. Additionally, according to the Centers for Disease Control and Prevention, more than 800,000 people each year are hospitalized because of a fall injury, resulting in an average cost of over $30,000. Falls also can lead to nursing home placement, which is estimated to cost over $90,000 annually. Reportedly, the lack of accommodating home modifications is the biggest barrier for an individual to move out of a nursing home, and the wait for accessible houses can exceed 18 months.

There are few options for financial assistance for home modification or the purchase of a residence that would provide accessibility and safety. Offering a tax credit is one way to mitigate the costs. Virginia enacted the Livable Home Tax Credit, which provides tax credits for individuals retrofitting an existing residence or purchasing a new one for the purposes of improving accessibility and visitability. Missouri also allows a Residential Dwelling Accessibility Tax Credit for costs incurred in making the taxpayer's principal residence accessible for individuals with disabilities. By creating a similar credit for Michigan residents, the bill would help physically limited individuals protect their safety and retain their independence through the ability to freely enter, exit, and move about a residence.

Also, the bill's definition of "accessibility" refers to a residence designed to provide the taxpayer *or* an individual related to the taxpayer or living with the taxpayer who has physical limitations, with the ability to enter, exit, and use the property with and without assistance. This means that the proposed credit could be claimed by taxpayers who did not have physical limitations themselves, but who purchased an accessible home or retrofitted a home to make it accessible for a physically limited spouse, child, parent, or sibling, for example, or another resident of the home who had physical limitations.

Response: The home still would have to be the principal residence of the taxpayer. The bill also should allow a taxpayer to claim the credit for purchasing or modifying a home that would be the principal residence of a close relative with physical limitations, but would not be the taxpayer's principal residence. Many people with physical disabilities would like to live in their own home but cannot afford to purchase an accessible house or make the necessary modifications. By extending the credit in this manner, the bill could provide another avenue for additional financial assistance and reduce wait-times for those trying to gain accessible housing.

Opposing Argument

In 2011, tax reform legislation was enacted to simplify Michigan's tax code. One of the changes was the elimination of many tax credits. Therefore, the bill would work against the tax policy created during the reform. While important, financial assistance for physically challenged individuals should be funded through alternative sources.

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.

Fiscal Analyst: Cory Savino
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