

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2899-01
Bill No.: HB 856
Subject: Taxation and Revenue - Income; Education, Elementary and Secondary
Type: Original
Date: February 9, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue*	(\$179,609) to \$8,326,462	(\$878) to \$22,803,110	(\$878) to \$23,719,285
Total Estimated Net Effect on General Revenue Fund	(\$179,609) to \$8,326,462	(\$878) to \$22,803,110	(\$878) to \$23,719,285

* This proposal is permissive. Voter approval would be required before fiscal impact would be realized.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government*	(UNKNOWN) to \$870,576,228	(UNKNOWN) to \$2,306,035,696	(UNKNOWN) to \$2,398,257,124

*** This proposal is permissive. Voter approval would be required before fiscal impact would be realized.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **State Auditor's Office** assume this proposal would not fiscally impact their agency.

Officials from the **Attorney General's Office** assume that the increased workload from additional collection responsibilities can be absorbed with existing resources.

Officials of the **Office of the Secretary of State (SOS)** assume this bill allows school districts to enact income and sales taxes. Based on experience with other divisions the rules, regulations and forms issued by the Department of Revenue could require approximately 10 pages in the Code of State Regulations. For any given rule, roughly one-half again as many pages are published in the Missouri Register as are published in the Code because of cost statements, fiscal notes and notices that are not published in the Code. The estimated cost of a page in the Missouri Register is \$23. The estimated cost of a page in the Code of State Regulations is \$27. Costs are estimated at \$615. The actual cost could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded, and withdrawn.

ASSUMPTION (continued)

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Department of Elementary and Secondary Education (DESE)** state this proposal authorizes a school board to present to the voters an income tax surcharge and a sales tax on all retail sales. The board cannot impose either tax without a majority vote of the voters on the ballot issue.

If approved by the voters, the district notifies the Department of Revenue. DOR establishes procedures for collecting the money and holding it in specified funds for later distribution to the appropriate school district.

The proposal specifically states that revenue a district receives from an income tax surcharge and the sales tax on retail sales will not be used in calculating the state aid per Section 163.031.

There is no cost to DESE as DESE is not involved in administering or overseeing the collection and distribution of the tax. If the sales tax is approved by voters, there would be an unknown increase to the General Revenue Fund, because the Department of Revenue is authorized to collect a 1% administration fee which is to be deposited into the General Revenue Fund. There is no savings or additional cost to the state aid formula.

Officials of the **Office of Administration, Budget and Planning (BAP)** assume this proposal should not result in additional costs or savings to BAP. The impact of this legislation on total state revenue is unknown. There could be positive TSR impact due to 1% collection fee in Section 162.1160. The impact will depend on the number of school districts that enact the income tax surcharge and the rate.

Officials of the **Department of Revenue (DOR)** state this legislation as worded:

Section 162.1150

This section adds definitions for the School District Income Tax Surcharge Act.

ASSUMPTION (continued)

Section 162.1152

This section enables a school district, by a majority vote of its school district, to impose an income tax surcharge, rate cannot exceed 15%, on the income tax of the residents of the school district. Tax shall terminate not more than 3 year from the effective date unless abolished by the school board.

Section 162.1154

This section allows in lieu of the income tax surcharge, the school district could impose a surcharge, not to exceed 15%, for the purpose of property tax reduction. Tax has to be submitted to the vote of the district. Paragraph 4 indicates that DES shall calculate the property tax equivalent figures. (1) indicates that DOR shall furnish to the district imposing the tax and to DES historical data. (2) for the 2nd year DOR shall furnish preliminary data on the 1st year's collection and historical data for the previous 2 year to DES and the district. (4) indicates that DOR shall furnish data based on actual collections. Legislation indicates that DES will make adjustments in the property tax equivalent as needed to compensate for overpayment or underpayment for calculations based on estimated revenues and shall assist the district imposing the tax. The tax authorized shall terminate not more than 5 years from the effective date of the tax unless abolished sooner by the school board.

Section 162.1156

This section indicates that no penalty shall be imposed on any taxpayer who failed to include the correct information on the return the first taxable year, however after that first year a \$50 penalty can be assessed.

Section 162.1158

This section includes the following provisions that govern collections of the surcharge:

1. All applicable provisions in Chapter 143 apply.
2. The surcharge is imposed on the tax due in Chapter 143 and shall be paid annually.
3. Penalties provided in Chapter 143 are applicable.

Section 162.1160

This section establishes a 1% collection fee. It also creates the School District Income Tax Surcharge Trust Fund. The moneys shall not be deemed to be state funds and shall not be commingled with any funds of the state. This section indicates that DOR shall keep accurate records of the amount of money in the trust fund and that the records will be open for inspection. DOR is to distribute the surcharge. DOR has refund capabilities.

ASSUMPTION (continued)

Section 162.1162

This section allows the school board to join in delinquency cases filed. However, before DOR files, DOR is to notify the school board. It also indicates that DOR is to promptly notify the treasurer of the school district if a surcharge is delinquent. Also, this section allows the school district to join in a seizure of property with DOR.

Section 162.1164

This section deals with the distribution of unidentified moneys after 3 years to each school district currently participating. The distribution shall be apportioned to the amount the district is receiving.

Section 162.1166

This section authorizes an additional sales tax on the school district of up to one cent on all retail sales with a vote of the people countywide. All revenue received by the school districts from the tax shall be deposited in special trust funds for each school district.

Section 162.1168

This section states all sales tax collected by DOR, less 1%, shall be deposited with the state treasurer in a special trust fund.

Section 162.1170

This section indicates that no revenue received by a school district shall be included in calculating state aid.

DOR assumes this legislation has a major impact on the Division of Taxation. Forms and instructions would need to be revised in order to add 4 pages to the books at a cost of \$40 per thousand - additional cost of printing of \$104,000. Correspondence, phone calls and file maintenance would need to be answered and processed.

The number of FTE needed would depend on how many school districts (if any) would approve such a surcharge. DOR would need an FTE for every 500,000 persons that would file a surcharge income tax return. DOR would have to obtain names of persons who live in the specific school district in order to enforce and administer the surcharge.

Personal Tax - DOR assumes will require system, procedure, policy, and regulation changes. DOR anticipates a minimum of 5% impact to processing time. DOR will require two temporary clerks for 5 months for every 150,000 returns impacted by this legislation. Also one Tax

ASSUMPTION (continued)

Processing Technician I for five months for every additional 30,000 errors generated. Personal

tax will also require one Tax Processing Technician 1 for every 3,000 pieces of correspondence received associated with this tax. DOR assumes the variation of surcharge rate could make this difficult in the development of the forms/instructions and system edits. Since not all school districts are authorized to collect, DOR assumes it may be difficult to properly enforce and/or edit, assuming DOR relies on the school district number indicated by the taxpayer. Depending on how it is handled will affect cost specified.

DOR assumes Customer Assistance will need One Tax Processing Tech I for every additional 24,000 calls on this surcharge.

Accounting Services assumes both surcharges would require modification of programs. Both surcharges would also require separate deposit tickets for the regular tax and the surcharge. In most cases one check will be sent for both taxes, which will require separate capture fields when adding the checks for deposit. If a check is sent with an even return, a voucher maybe required for depositing the check. This will require at least one additional Account Clerk II to process the deposit tickets.

According to Information Technology, a new field will be added to the MO-1040, M0-1040A, MO-1040B and MO-1040C for reporting of the School District Income Tax Surcharge Trust Fund. DOR assumes the MINITS System, E-File and PC Speedup will need to be modified. Depending on when the school district enacted this legislation the costs would be associated with that fiscal year. If DOR is to enhance the programs in anticipation of a school district imposing the surcharges, the costs would be immediate. DOR estimates that with the aid of contract programming and overtime programming of DOR's current FTE it will take 3,114 hours of programming (2,076 hours of overtime programming at a cost of \$69,255 (6 programmers for 2 months) and 1,038 hours of contract programming at a cost of \$51,900) for a total cost of \$121,125. The State Data Center implementation costs would be \$10,451 with ongoing costs of \$878.

In response to a prior, similar proposal, DOR estimated that 1,384 hours of overtime programming would be required at a cost of \$46,174. The State Data Center implementation costs would be \$10,451, with ongoing annual costs of \$878. Also, DOR estimates 519 hours of overtime programming will be needed at a cost \$15,606 for the increased sales tax and the State Data Center implementation costs would be \$3,378. Therefore, **Oversight** will reflect the programming costs associated with collecting and administering the surcharge and local sales tax as \$76,487.

ASSUMPTION (continued)

Oversight assumes the total administrative impact to DOR from this legislation is unknown.

The number of FTE required would depend on how many school districts (if any) would approve such a surcharge and if the one percent (1%) collection fee would cover DOR's expenses. Since DOR has requested 8 FTE and 2 tax season temporaries, **Oversight** assumes this represents the estimated number of FTE needed based on DOR's stated workload measures if the income tax surcharge is passed by school districts in the state. **Oversight** will reflect the cost of FTE and related expenses as a range from \$0 to the actual costs for the total FTE requested by DOR.

Oversight has, for fiscal note purposes only, changed the starting salary for eight FTE requested by DOR to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Oversight assumes this proposal is permissive and would require voter approval before any positive fiscal impact would be realized by the state. **Oversight** presented the fiscal impact in a range of no voters passing such measure to all school districts in the state passing **both** the income tax surcharge and the sales tax measures. **Oversight** assumed a 4 percent growth rate in sales tax revenue from the FY05 projections for FY06 and FY07. **Oversight** assumes the Income Tax Surcharge, at the earliest, would be passed by the voters in October, 2004 and therefore, would not be effective until January 1, 2005, at which time employers would withhold from earnings and remit to the state. **Oversight** also assumed the Local Sales Tax, at the earliest, would be passed by voters in October, 2004, and therefore, would become effective April 1, 2005. With a month of lag time, only 2 months of revenue would be realized in FY 2005. **Oversight** also assumes DOR would complete the programming changes related to the Income Tax Surcharge and the Local Sales Tax in FY05.

Officials from the **State Treasurer's Office (STO)** assume this legislation creates the School District Sales Tax Trust Fund

- fund not in the treasury
- funds to be deposited with the State Treasurer's Office
- moneys in the fund shall not be deemed state funds

This proposal is requiring STO to handle funds not in the treasury. STO believes this is outside of their constitutional duties. However, if the bill were to pass with the current language, STO would request one Accounting Analyst II with the corresponding expense and equipment.

ASSUMPTION (continued)

Oversight assumes since the funds are not in the state treasury, STO would not be administratively impacted by this proposal.

This proposal could result in an increase in Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2005 (6 Mo.)	FY 2006	FY 2007
GENERAL REVENUE FUND			
<u>Income</u> - General Revenue Fund			
1% collection fee from income tax surcharge at the local level*	\$0 to \$7,515,000	\$0 to \$15,630,000	\$0 to \$16,255,000
<u>Income</u> - General Revenue Fund			
1% collection fee from sales tax at the local level*	\$0 to <u>\$1,190,762</u>	\$0 to <u>\$7,430,357</u>	\$0 to <u>\$7,727,571</u>
Total Income - GR	\$0 to \$8,705,762	\$0 to \$23,060,357	\$0 to \$23,982,571
<u>Costs</u> - Department of Revenue Administering & collecting sales tax Programming	(\$18,984)	\$0	\$0
<u>Costs</u> - Department of Revenue Administering & collecting surcharge			
Personal Service (8 FTE & 2 temps.)	\$0 to (\$97,328)	\$0 to (\$183,174)	\$0 to (\$187,364)
Fringe Benefits	\$0 to (\$33,848)	\$0 to (\$69,388)	\$0 to (\$71,123)
Expense and Equipment	\$0 to (\$68,515)	\$0 to (\$3,807)	\$0 to (\$3,921)
Programming & printing	<u>(\$160,625)</u>	<u>(\$878)</u>	<u>(\$878)</u>
Total Costs - DOR	<u>(\$160,625 to \$360,316)</u>	<u>(\$878) to (\$257,247)</u>	<u>(\$878) to (\$263,286)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUNDS	<u>(\$179,609) to \$8,326,462</u>	<u>(\$878) to \$22,803,110</u>	<u>(\$878) to \$23,719,285</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2005 (6 Mo.)	FY 2006	FY 2007

LOCAL SCHOOL DISTRICTS

<u>Revenue</u> - 15% Income Tax Surcharge	\$0 to \$751,500,000	\$0 to \$1,563,000,000	\$0 to \$1,625,500,000
<u>Revenue</u> - Local Sales Tax	\$0 to \$119,076,228	\$0 to \$743,035,696	\$0 to \$772,757,124
<u>Costs</u> - Election Costs	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL FUNDS*	<u>(UNKNOWN)</u> <u>to \$870,576,228</u>	<u>(UNKNOWN)</u> <u>to</u> <u>\$2,306,035,696</u>	<u>(UNKNOWN)</u> <u>to</u> <u>\$2,398,257,124</u>

*Note: Voter approval at local elections of the Income Tax Surcharge and/or the Local Sales Tax must occur to realize the impact. For fiscal note purposes, Oversight presented the fiscal impact in a range of no school districts approving the measure to all school districts approving the measure at their legal extent.

FISCAL IMPACT - Small Business

Small businesses would be fiscally impacted to the extent they must keep track of and pay an additional income tax or sales tax.

DESCRIPTION

This proposal allows school districts to adopt by voter approval a personal income tax, sales tax, or both. Moneys raised by the taxes would not be deducted from a district's state school aid. For either tax, the school district must specify the purpose of the tax and the period of time for which the tax will be imposed, not to exceed three years. The income tax is a 5, 10, or 15% surcharge on state personal income tax. The sales tax may be up to one cent, in eighth-cent increments. The income tax may also be used for property tax reduction, in which case it may run up to five years.

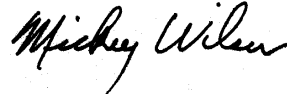
DESCRIPTION (continued)

The bill contains technical provisions for the handling and transfer of funds and for the conduct of the elections.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Elementary and Secondary Education
Secretary of State
State Auditor
Office of Administration
 Budget and Planning
Attorney General
Department of Revenue
State Treasurer

A handwritten signature in black ink, reading "Mickey Wilson". The signature is fluid and cursive, with the first name "Mickey" and last name "Wilson" clearly distinguishable.

Mickey Wilson, CPA
Director
February 9, 2004