COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3592-01
Bill No.: HB 969 with SSA 1 for SA 1, SA 2, and SA 3
Subject: Business and Commerce; Taxation and Revenue - Income
Type: Original
Date: May 10, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	$4,450,594 to $6,533,928	$5,500,000 to $8,000,000	$5,500,000 to $8,000,000
Total Estimated Net Effect on General Revenue Fund	**$4,450,594 to $6,533,928**	**$5,500,000 to $8,000,000**	**$5,500,000 to $8,000,000**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Blind Pension	$0	Unknown to (Unknown)	Unknown to (Unknown)
Total Estimated Net Effect on Other State Funds	**$0**	**Unknown to (Unknown)**	**Unknown to (Unknown)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 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)**	**Unknown to (Unknown)**	**Unknown to (Unknown)**

FISCAL ANALYSIS

ASSUMPTION

Section 143.431 (as amended by SSA 1 for SA 1)

Officials of the **Office of Administration, Division of Budget and Planning (BAP)** assume this bill makes certain changes to Missouri corporate income tax laws, establishing guidelines for the taxation of intangible property. BAP assumes this bill would have a positive impact on General Revenue and Total State Revenue, but defers to the Department of Revenue for an estimate.

BAP assumes this bill would have no impact on the Office of Administration or BAP.

Officials of the **Department of Revenue (DOR)** assume the Division of Taxation will need to modify forms and programming for the new addition and subtraction created by this legislation. DOR estimates that the programming modifications for the COINS and CAFÉ' systems will take 2,595 hours (5 programmers for 3 months), at a cost of $86,569. These programmers will have to do the following: 1) Database changes to add the new fields; 2) online screen changes to all the return processing screens; 3) changes to the edit and audit program for returns; 4) report changes; and 5) changes to the CAFÉ system.

DOR officials estimate that the proposal would increase income tax collections by $5,500,000 to $8,000,000 per year.

ASSUMPTION (continued)

Section 324.010 (SA 2)

Officials from the **Department of Revenue (DOR)** assume current language requires DOR to provide a taxpayer applying for a professional license and the agency charged with issuing the license notification of any outstanding tax delinquencies. This legislation requires DOR to provide the licensee written notification that the delinquency has been remedied within ten business days.

For purposes of this fiscal note, DOR assumes "remedied or made arrangements to remedy" is when the director determines the delinquency has been satisfied. In other words, DOR will have ten days to notify the taxpayer after the payment or information has been received and processed by DOR. Currently, DOR already has this notification in process and therefore, there will be no impact to DOR.

The legislation also states that DOR is to send notification within 10 days of the notification to the governmental entity issuing the professional license. Currently, DOR does not notify the governmental entity issuing the professional license that a taxpayer has become compliant. DOR will need 1,384 hours of programming modifications, at a cost of $46,170, to alter systems to produce required notifications.

Section 137.078 (SA 3)

Officials from the **State Tax Commission** assume this proposed legislation establishes depreciation tables for certain television broadcasting equipment. The depreciation tables outlined in the proposal appear to be accelerated. This legislation appears to be unique as it sets forth the method for determining the true value in money for the equipment by using the depreciation tables and multiplying the results by the applicable fraction. Such fraction is to be determined by the industry owning such property.

The State Tax Commission does not have any information available on how this proposal will impact the local political subdivisions or what the revenue loss may be.

Oversight assumes there would be unknown additional costs to county assessors, county clerks, and taxing authority officials to implement this proposal, and has shown these costs in FY 2005. Oversight assumes that any additional costs in subsequent years would be minimal. Oversight also assumes that any tax effect from this proposal would began in FY 2006 since assessment for 2005 taxes (FY 2006) would be completed after the effective date of this proposal. Oversight

ASSUMPTION (continued)

assumes there would be an unknown impact to the Blind Pension Fund, since the Blind Pension Fund levy rate would not be adjusted.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE FUND			
Income - Increased Intangible Property Taxation	$4,583,333 to $6,666,667	$5,500,000 to $8,000,000	$5,500,000 to $8,000,000
Cost - Dept. of Revenue Programming	($132,739)	$0	$0
TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$4,450,594 to $6,533,928**	**$5,500,000 to $8,000,000**	**$5,500,000 to $8,000,000**
BLIND PENSION FUND			
Increase (Decrease) in Tax Revenues as a result of changes in assessment.	$0	Unknown to (Unknown)	Unknown to (Unknown)
TOTAL ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**Unknown to (Unknown)**	**Unknown to (Unknown)**

FISCAL IMPACT - Local Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
POLITICAL SUBDIVISIONS			
Increase (Decrease) in Tax Revenues as a result of changes in assessment.	$0	Unknown to (Unknown)	Unknown to (Unknown)
Cost to counties			
Additional administrative cost to county assessor and clerk.	(Unknown)	$0	$0

Cost to other political subdivisions			
Additional administrative and reporting cost.	(Unknown)	$0	$0
TOTAL ESTIMATED NET EFFECT ON POLITICAL SUBDIVISIONS	**(Unknown)**	**Unknown to (Unknown)**	**Unknown to (Unknown)**

FISCAL IMPACT - Small Business

Small businesses which own or invest in businesses which own analog or digital television equipment would be affected by this proposal.

DESCRIPTION

This proposal would establish a procedure for determining of tax liability for purposes of corporate income tax of certain expenses and costs related to certain intangible property when the property is transferred to a related entity.

The bill would provide specific criteria for determining if transactional expenses and costs related to the transfer and use of the rights to patents, trade names, trademarks, and other intangible property incurred by a taxpayer from a related entity are a legitimate business expense and are allowed to be deducted in the computation of Missouri taxable income.

This proposal would require that when a professional licensee of this state has been found to be delinquent on his or her taxes and then remedies such delinquency or makes arrangements to remedy such delinquency, the director of revenue shall, within ten business days, provide written notification as to such remedy to the governmental entity issuing the professional license.

This proposal would also set the true value in money for assessment of television broadcasting equipment at a value determined based upon the historical cost of the item as depreciated. The depreciation is set by the act in a series of tables. The proposal would provide depreciation tables for both analog and digital equipment.

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

SOURCES OF INFORMATION

Office of Administration
Division of Budget and Planning
Department of Revenue
State Tax Commission

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