

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4947-01
Bill No.: HB 1729
Subject: Taxation and Revenue - Property: Agriculture and Animals
Type: Original
Date: April 21, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	\$0	(\$4,523,956)	(\$4,565,063)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$4,523,956)	(\$4,565,063)

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 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	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue** stated that the proposal would have administrative impact on their agency.

Forms and Instructions would need to be changed for this credit.

Personal Tax would need one Tax Processing Tech for every 1,000 additional claims received to approve and verify the credit. (If language were added to the legislation requiring the Department of Agriculture (or other appropriate agency) to approve the credit, the department's administrative would be reduced to one Tax Processing Tech one for every 3,000 claims.)

Without an approving agency other than DOR, Customer Assistance anticipates additional questions on the income tax hotline. Therefore, one Tax Processing Tech I would be needed for every 24,000 calls.

The Missouri Individual Income Tax System (MINITS) and the Tax Credit Program will need to be modified. It is estimated that MINITS will take 1,384 hours, and the PC Tax Credit Program will take 173 hour for a total programming cost of \$51,941.

As written, the eligible taxpayer is "person owning or operating a farm or ranch in this state". It is the department's assumption that this would not affect corporate tax filers. If this is incorrect further review will be needed for administrative costs.

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ASSUMPTION (continued)

Oversight has, for fiscal note purposes only, changed the starting salary for the Tax Processing Technicians I 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 also assumes that new personnel would be located in existing space.

Officials of the **Secretary of State (SOS)** stated that this proposal would create a tax credit for property taxes paid on commercial production agriculture. The Department of Revenue would promulgate rules to implement the proposal. Based on experience with other divisions, the rules, regulations and forms issued could require as many as 8 pages in the *Code of State Regulations*. For any given rule, roughly half again as many pages are published in *Missouri Register* as in the *Code* because cost estimates and fiscal notes are not repeated 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. The estimated cost of publication in FY 2005 for this proposal is \$492.. Actual cost could be more or less and costs in future years would depend upon frequency and length of rules filed, amended, rescinded or withdrawn.

Secretary of State officials do not anticipate the need for additional staff as a result of this proposal; however, enactment of more than one similar proposal could, in the aggregate, require additional staff.

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 appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials of the **State Tax Commission (TAX)** estimated the amount of credits which might be taken.

They noted that the proposed legislation defines property as any farm asset used in commercial production agriculture by a qualified taxpayer. However, it does not provide a definition for "commercial production agriculture". For the purposes of estimating a revenue impact, TAX officials used the assessed valuation for "subclass 2 of real property and agricultural personal property".

In 2002, the total assessed valuation for subclass 2 of real property and agricultural personal property was \$ 1,889,163,653.

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ASSUMPTION (continued)

$\$1,889,163,653 \times \6.13 (per hundred dollars assessed value) average state-wide tax rate =
\$115,805,731.

In 2003, the total assessed valuation for subclass 2 of real property and agricultural personal property was \$ 1,919,674,055.

$\$1,919,674,055 \times \6.14 (per hundred dollars) average state-wide tax rate = \$117,867,987.

The total tax credit for 2003 would have been $\$117,867,987 - \$115,805,731 = \$2,062,256$.

For the purposes of projecting future revenue impact, TAX officials assumed the assessed valuation for Subclass 2 of real property and agricultural personal property would increase one and one half of one percent ($1\frac{1}{2}\%$) each year and the average state-wide tax levy will increase two percent (2%) each year.

Projected 2004: $\$1,919,674,055 \times 1.5\% = \$28,795,111$. The assessed valuation is projected to be \$1,948,469,166. The state-wide tax levy will increase approximately 2%. The levy for 2004 is projected to be \$6.26.

$\$1,948,469,166 \times \6.26 per one hundred dollars (average state wide tax rate) = \$121,974,170.

The total tax credit for 2004 would be approximately $\$121,974,170 - \$117,867,987 = \$4,106,183$.

Projected 2005: assessed value of agricultural property will be \$1,977,696,203. ($\$1,948,469,166 \times 1.5\% = \$29,227,037 = \$1,977,696,203$.)

Average state-wide tax levy will increase 2%. $\$6.26 \times 2\% = \$.13$ ($\$6.26 + .13$) = \$6.39

$\$1,977,696,203 \times \6.39 (per hundred dollars) = \$126,374,787.

The total tax credit for 2005 would be $\$126,374,787 - \$121,974,170 = \$4,400,617$.

Projected 2006: assessed value of agricultural property will be \$2,007,361,646.
($\$1,977,696,203 \times 1.5\% = \$29,665,443$. $\$1,977,696,203 + \$29,665,443 = \$2,007,361,646$)

Average state-wide tax levy will increase 2%. $\$6.39 \times 2\% = \$.13$ ($\$6.38 + .13$) = \$6.52

ASSUMPTION (continued)

\$2,007,361,646 x \$6.52 (per hundred dollars) = \$130,879,979.

The total tax credit for 2006 would be \$130,879,979. - \$126,374,787. = \$4,505,192.

For fiscal note purposes, Oversight assumes that The tax credits for 2005 would be taken in FY 2006 and the tax credits for 2006 would be taken in FY 2007.

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE FUND			
<u>Cost</u> - Department of Revenue (DOR)			
Personal Service (2 FTE)	\$0	(\$40,671)	(\$41,891)
Fringe Benefits	\$0	(\$16,838)	(\$17,343)
Expense and Equipment	<u>\$0</u>	<u>(\$65,830)</u>	<u>(\$637)</u>
Administrative Cost to DOR	\$0	(\$123,339)	(\$59,871)
<u>Loss</u> - Property Tax Credit	\$0	(\$4,400,617)	(\$4,505,192)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$4,523,956)</u>	<u>(\$4,565,063)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses which are commercial farms could be affected by this proposal.

DESCRIPTION

This proposal would allow qualified taxpayers a tax credit in an amount equal to the increase in real or personal property taxes on commercial production agricultural property owned by the taxpayer. The proposal would be in effect for all tax years beginning on or after January 1, 2005.

The proposal contains a sunset clause.

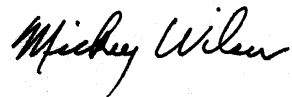
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DESCRIPTION (continued)

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

Department of Revenue
Secretary of State
State Tax Commission

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
April 21, 2004