

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0759-01  
Bill No.: HB 774  
Subject: Revenue Dept.; Taxation and Revenue – General; Taxation and Revenue –  
Income  
Type: Original  
Date: April 6, 2004

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	(\$9,767,000)	(\$39,068,000)	(\$39,849,000)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$9,767,000)</b>	<b>(\$39,068,000)</b>	<b>(\$39,849,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 5 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>
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FUND AFFECTED	FY 2006	FY 2007	FY 2008
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

### FISCAL ANALYSIS

#### ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this legislation phases in an earned income tax credit on the Missouri income tax return. For tax year beginning on January 1, 2006, a resident individual is authorized a state earned income tax credit equal to five percent of the Federal earned income tax credit. Beginning January 1, 2008, a taxpayer is authorized a state earned income tax credit equal to ten percent, and beginning January 1, 2010, a taxpayer is authorized a state earned income tax credit equal to twenty percent of the Federal earned income tax credit. If the credit exceeds the taxpayer's liability, the credit may be refunded or carried forward. DOR is required to notify any taxpayer who potentially may be eligible for the tax credit and who did not claim the credit on the state tax return.

According to the Federal Statistics of Income Bulletin for tax year 2002, there were 423,787 federal returns filed by Missouri residents claiming an earned income tax credit. DOR assumes this credit will have an extra 20 second impact on all returns processed. The Division of Taxation will need two temporary tax season employee (\$7.50 an hour) for keying the additional line, one Tax Processing Technician for every 3,000 pieces of correspondence received regarding the credit, and one Tax Processing Technician for every 30,000 additional errors generated by this credit.

#### ASSUMPTION (continued)

DOR assumes Customer Assistance will need additional tax assistance field personnel to handle the walk-in questions until the credit is maximized. One Taxpayer Services Representative is requested for every additional 1,285 walk-ins per year. Also, the Customer Assistance Bureau anticipates the call volume to increase. A telephone collector can handle 2,000 calls per month, therefore, one Tax Collection Technician is requested for every 24,000 additional calls received regarding this credit.

DOR assumes this legislation will require modifications to the individual income tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of overtime at a cost of \$46,170. State Data Center charges will increase due to the additional storage and fields to be captured.

DOR assumes that nearly all returns filed will request a refund; however, the MINITS system will have to be programmed to handle the carryforward of the credit systematically. To do this, additional programming will be needed. It is estimated that the programming and test to the carryforward will take four programmers one month to do—692 hours of additional programming at a cost of \$23,085.

The Division of Taxation will have internal costs estimated to be \$69,255 and possible FTE associated with the implementation of this proposal; however, the division believes it can manage these costs at current appropriation levels unless there is a material change in the division's other responsibilities.

According to 2003 Statistics of Income Data compiled by the **Internal Revenue Service**, \$721.8 million in credits were allowed in Missouri in tax year 2002. The income ceiling for claiming the credit at the federal level is adjusted for inflation each year. For purposes of this fiscal note, **Oversight** assumes 2% growth in the amount claimed for the credit each year, by tax year 2006 an estimated \$781.4 million in earned income credits will be claimed in Missouri. Taken at 5%, this proposal would have a negative impact on general and total state revenues of \$39.07 million in FY07 and \$39.85 million in FY08.

**Oversight** assumes DOR would require verification of eligibility. In the absence of such verification, total credits could be significantly greater than estimated.

**Oversight** estimates a loss to the General Revenue Fund of \$9.8 million for FY06 due to the possibility of reduced withholding and estimated income tax payments for calendar year 2006. Oversight assumes 25% of Missouri taxpayers would adjust payments, however it should be noted that this amount could be less depending on the taxpayers' awareness of this credit in ASSUMPTION (continued)

determining state income tax and their desire to adjust withholdings or estimated payments.

**This proposal would result in a decrease in Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
<b>GENERAL REVENUE FUND</b>			
<u>Loss to General Revenue Fund</u>			
Earned Income Tax Credit	(\$9,767,000)	(\$39,068,000)	(\$39,849,000)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$9,767,000)</u></b>	<b><u>(\$39,068,000)</u></b>	<b><u>(\$39,849,000)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal allows a state individual income tax credit equal to a percentage of any earned income tax credit claimed by the taxpayer on the federal income tax return. The percentage of the federal credit allowed will be 5% for tax years 2006 and 2007, 10% for tax years 2008 and 2009, and 20% for tax year 2010 and thereafter. Any amount of credit which exceeds the taxpayer's liability in any tax year will be refunded to the taxpayer or carried forward into future tax years.

DESCRIPTION (continued)

The bill also requires the Department of Revenue to notify potentially eligible taxpayers that they may be able to receive the earned income tax credit.

The provisions of the bill will expire six years from the effective date.

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 Revenue  
Internal Revenue Service

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

Mickey Wilson, CPA  
Director  
April 6, 2005