COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.:	2228-01
Bill No.:	HB 967
Subject:	Taxation and Revenue – Income
Type:	Original
Date:	April 13, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	$11,000,000	$11,000,000	$11,000,000
Total Estimated Net Effect on General Revenue Fund	**$11,000,000**	**$11,000,000**	**$11,000,000**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Office of Administration - Division of Budget and Planning (BAP)** assume this bill would disallow the deduction for property tax paid to another state on nonresident tax returns. Based on data from the IRS Statistics of Income and the Department of Revenue, BAP makes the following assumptions:

- In Missouri in 2002, those with itemized deductions who claim a real estate (property) tax deduction have an average deduction of $1,735 and 91.3% of those with itemized deductions claim a real estate tax deduction.

- In 2003, there were 116,000 nonresident returns that claimed itemized deductions.

- Assuming that 91.3% of these returns claim a real estate (property) tax deduction, there would be 105,908 nonresident returns claiming a $1,735 deduction for real estate (property) tax paid to another state.

Based on these assumptions, Missouri would gain about $183.75 million in taxable income by disallowing this deduction. Assuming that this would be taxed at the 6% tax rate, the revenue gain would be about $11 million.

ASSUMPTION (continued)

Assuming this provision would not be effective until tax year 2006, the revenue impact would be realized upon the filing of returns in FY 2007 and each fiscal year thereafter. **Oversight** assumes this proposal would become effective for tax year 2005; thus, the revenue impact would be realized in FY 2006 and in each fiscal year thereafter.

BAP assumes property taxes paid to other states will be greater in 2005 relative to 2002, thus increasing the impact of this proposal, but BAP does not have the requisite data to make such an estimate. This bill would have no impact on BAP.

Officials of the **Department of Revenue (DOR)** and its Personal Tax Division anticipate that this proposal will require an additional line and edit on the Form MO-A part 2 to subtract the property tax from the non-resident's itemized deduction. To maintain the current processing time, Personal Tax would need to reallocate 1 Tax Processing Tech I for every 19,000 errors created, and 1 Tax Processing Tech for every 2,400 additional pieces of correspondence created by this legislation.

Mainframe systems will have to be enhanced for the additional line and edits. It is estimated that it will take 4 programmers 2 months or an estimated cost of $46,170.

The Division of Taxation will have internal costs estimated to be $92,154 and 2 FTE associated with the implement of this legislation; 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.

DOR states that, according to the latest UMS report, there are approximately 116,000 nonresidents that itemize.

This proposal would increase Total State Revenues.

FISCAL IMPACT - State Government	FY 2006 (10 Mo.)	FY 2007	FY 2008
GENERAL REVENUE FUND			
Income - General Revenue			
Disallowance of property tax paid to other states on nonresident tax returns	$11,000,000	$11,000,000	$11,000,000
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	**$11,000,000**	**$11,000,000**	**$11,000,000**

FISCAL IMPACT - Local Government	FY 2006 (10 Mo.)	FY 2007	FY 2008
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

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

DESCRIPTION

Currently, in certain cases, a nonresident may receive an itemized deduction on their federal return for property taxes paid to another state. Current Missouri law does not require that this amount be "added-back" on the Missouri return. Therefore, the deduction for property taxes paid to another state carries through to apply against the Missouri income tax of a nonresident. This act would eliminate this deduction by requiring nonresidents to add-back the amount of the federal deduction on their Missouri tax return.

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
Office of Administration
Division of Budget and Planning

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April 13, 2005