COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3619-01
Bill No.: HB 1215
Subject: Taxation and Revenue - Income; Elderly; Disabilities.
Type: Original
Date: February 8, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue*	$0	($154,738 to Unknown)	($139,664 to Unknown)
Total Estimated Net Effect on General Revenue Fund*	**$0**	**($154,738 to Unknown)**	**($139,664 to Unknown)**

*** Could exceed $13,000,000**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
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 2007	FY 2008	FY 2009
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to Secretary of State's office for Administrative Rules is less than $1,500. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Office of Administration - Budget and Planning (BAP)** state this bill proposes a refundable tax credit for qualified elderly and disabled individuals for property taxes paid. BAP assumes there will be a loss to general revenues to the extent that funding for schools is impacted. The Department of Revenue should provide the estimate of possible increased costs and revenues to the state as a result of this proposal.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** state this legislation would allow taxpayers (65 and older, or are a veteran of any branch of the armed forces of the US or this state and who was 100% disabled during such service, or who is disabled as described by this section and who has lived in their homestead for at least 20 years and paid more than 10% of his/her total household income on their real property tax) a credit in an amount equal to 50% of his/her property taxes paid on the homestead. Since this is a refundable credit, taxpayers who would not normally file returns, will do so in order to get the refund. This will increase the number of returns filed.

DOR states the US Census for 2004 reports:

- 713,227 Missouri residents are age 65 years and over.
- 536,289 veterans are residing in Missouri (this census does not distinguish how many of these veterans are disabled and how many are simply veterans)
- 818,047 MO residents fit the disability status (population 5 years of age and over)

The number of filers for this credit is unknown. Some of these taxpayers will already be filing, however, there will also be filers that normally would not be required to file but do so in order to get the 50% refund on their property tax as a result of this credit. DOR's Administrative Impact:

- Forms - According to Subsection 4, this legislation has included nontaxable income. This is currently not included on the Missouri tax return, other than the Missouri Property Tax Credit Claim. A new and separate worksheet would need to be created. The worksheet will also need a line for add-back, non-business losses. This would create additional functions for the Temporary Tax Employees. The worksheet will need to have 7 lines, plus 1 line containing the amount to carry over to the income tax return. Personal Tax will need 1 speed-up Temporary Tax Employee for every additional 32,000, paper returns filed, 1 giddy-up Temporary Tax Employee for every additional 10,705 1040P's filed, 1 speed-up Temporary Tax Employee for the additional line added to the existing paper returns filed, and 1 speed-up Temporary Tax Employee for the additional line added to paper 1040P's filed.

- IT - This legislation will require modifications to individual and corporate income tax systems. Taxation estimates these modifications will require a MINITS programming costs of $46,170 (1,384 hours). COINS will also need to be modified for a programming cost of $23,085 (692 hours). The department proposes to cover these costs with current IT staff. In the event multiple new credits/deductions are passed, this cost could exceed current appropriation levels and result in additional funds being requested.

ASSUMPTION (continued)

- Customer Assistance - Anticipates an increase in the volume of walk-ins, telephone calls, and general assistance. CA requires 1 Tax Processing Technician I for every additional 4,800 contacts in the field offices, 1 Tax Collection Technician I for every additional 15,000 contact on the delinquency line (billing due to lack of documentation), and 1 Tax Collection Technician I for every additional 24,000 contacts on the income tax line (general inquiries & adjusted credits/refunds).

In summary, DOR anticipates a cost of roughly $150,000 per year to administer this legislation. DOR states this proposal resembles the Property Tax Credit.

Oversight assumes DOR will not require the additional FTE and related costs until FY 2008. Oversight also assumes DOR will not pay for additional building space as a result of the requested FTE.

Officials from the **University of Missouri - Economic & Policy Analysis Research Center (UM-EPARC)** state the bill proposes a tax credit for certain elderly and disabled filers who are residents of Missouri. For those meeting the age, disability and homestead criteria, they are permitted to take a tax credit for property taxes paid in the previous year. Property taxes must be no less than 10 percent of pension income. Under these conditions, 50 percent of the property taxes, after adjusting for inflation, can be taken as a tax credit.

UM-EPARC ran a simulation that uses the Urban Consumer Price Index per year, with 2004 as the base year. The inflation rate is for 2004 since 2005 data are incomplete. The following table reflects the minimum and maximum income brackets used in calculating the estimate for the property tax refund credit. The data used are from the 2004 income tax returns. For those individuals who filed a standard deduction and did not file a Property Tax Credit form, their amount of property tax is the average tax of other filers in their tax bracket for whom we know their property tax amount.

	Number	Amount of Property Tax Credit
Taxpayers who didn't take the circuit breaker credit	7,413	$11.3 million
Taxpayers who did take the circuit breaker credit	8,383	NA
- Would switch to new tax credit	4,512	$5.0 million
- Would continue to take circuit breaker credit	3,871	NA
- Forgone circuit breaker tax credit		($2.7 million)
TOTAL		$13.6 million

ASSUMPTION (continued)

Therefore, UM-EPARC assumes that net General Revenue would decline by $13.6 million.

Oversight assumes that this proposal would create an unknown reduction in revenue to the General Revenue Fund beginning in FY 2008. Oversight will use UM-EPARC's estimate as a footnote.

This proposal will reduce Total State Revenue.

FISCAL IMPACT - State Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE FUND			
Costs - Department of Revenue			
Personal Service (3 FTE)	$0	($72,468)	($74,280)
Fringe Benefits	$0	($31,929)	($32,728)
Expense and Equipment	$0	($20,083)	($1,642)
Temporary Employees	$0	($30,258)	($31,014)
Total Costs - DOR	$0	($154,738)	($139,664)
Loss - Revenue reduction from tax credit for certain elderly and disabled persons for real property taxes paid *	$0	(Unknown)	(Unknown
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND *	**$0**	**($154,738 to Unknown)**	**($139,664 to Unknown**

***Could exceed $13,000,000**

FISCAL IMPACT - Local Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

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

DESCRIPTION

This proposal authorizes, beginning January 1, 2007, a 50% tax credit for the elderly or disabled who have lived in their home for at least 20 years and who have spent at least 10% of their household income on real property taxes. The tax credit is refundable; and taxpayers will not be able to claim this credit if they filed a valid claim under Sections 135.030 or 137.106, RSMo, for the same tax year.

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

This legislation is not federally mandated and would not require additional capital improvements or rental space. This proposal may duplicate the existing Property Tax Credit program.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration - Budget and Planning
Office of the Secretary of State
University of Missouri

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