

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4881-01
Bill No.: HB 1960
Subject: Revenue Department; Taxation and Revenue - Income.
Type: Original
Date: March 31, 2006

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|--------------------|------------|------------|
| FUND AFFECTED | FY 2007 | FY 2008 | FY 2009 |
| General Revenue | (\$131,400) | \$0 | \$0 |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | (\$131,400) | \$0 | \$0 |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2007 | FY 2008 | FY 2009 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>Other</u> 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 <u>All</u> 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 Administration - Budget and Planning (BAP)** assumes this bill makes significant changes to the income tax rates in Missouri. BAP defers to the University of Missouri - Economic & Policy Analysis Research Center for an estimate of the impact, but assumes this proposal will significantly raise general revenues, should the bill be approved by voters.

Officials from the **Department of Revenue (DOR)** state this legislation changes the income tax rates, removes the deduction for federal income tax, and creates a refundable credit for every exemption claimed on the taxpayer's Missouri individual income tax return. This legislation increases the percentages at which individual income is taxed, therefore, increasing state revenues.

DOR assumes this legislation will cause filers, who previously were not required to file, to submit a state income tax return in order to receive the refundable credit. This will greatly increase the number of low-income tax assistance walk-ins/phone calls in our field offices. DOR's Customer Service will require 1 Tax Collections Technician I for every 24,000 calls per year on the income tax inquiry line, 1 Tax Collections Technician I for every 15,000 calls per year on the delinquency tax line, and 1 Tax Processing Technician I for every 4,800 contacts in

ASSUMPTION (continued)

the field offices (DOR does not assume each field office will receive this number of contacts, therefore, will only require 1 FTE for each of the large field offices (St. Louis, Kansas City, and Springfield = 3 FTE).

This legislation will require changes to the withholding tax tables, withholding tax calculator and withholding tax forms. These changes will be addressed with existing staff.

DOR's Personal Tax anticipates the varying credit will create errors. This will result in the need for 1 Tax Processing Technician I for every 19,000 additional errors, 1 Tax Processing Technician I for every 2,400 additional pieces of correspondence for individual income tax, plus 1 Tax Processing Technician I for every 25,000 additional errors in PTC & the MO-1040P.

In summary, DOR assumes the need for 8 (eight) additional FTE at an annual cost of over \$300,000.

Officials from the **University of Missouri - Economic & Policy Analysis Research Center (UM-EPARC)** state in the bill, there is a substantial change to the individual income tax rate schedule. The bill creates many more income categories compared to the existing legislation. To illustrate, the current structure divides Missouri taxable income into nine different categories with the final category applying to filers with Missouri taxable income equal to \$9,000 or greater. The bill increases the number of categories to twelve, which applies to all filers with Missouri taxable income equal to \$50,000 or greater.

MU-EPARC states that the current gross tax collections are \$4.130 billion and estimates that under this bill, gross taxes collected will be \$5.090 billion. Thus, gross tax collections will increase by \$960 million. When you take into account the tax credit (which lowers general revenue by \$175 million), the net impact to general revenue is an increase of \$785 million (\$960 - \$175).

Officials from the **Office of Secretary of State - Administrative Rules (SOS - Rules)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS - Rules 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 the SOS for Administrative Rules is less than \$1,500. The SOS - Rules recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS - Rules also recognizes 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 the office can sustain with the core budget.

ASSUMPTION (continued)

Therefore, the SOS - Rules reserves 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 the Secretary of State - Elections (SOS - Elections)** state that statewide newspaper publication of state statutes cost approximately \$1,752 per column inch based on estimate provided by the Missouri Press Service x 3 for multiple printings as required by the Constitution and state statute = \$5,256 per column inch. SOS - Elections estimates the total number of inches for this amendment to be 25, which includes title header and certification paragraph. This would equate to advertising costs of \$131,400 (\$5,256 x 25 inches).

If a special election is called for this purpose rather than being voted on at a general election, the cost of the special election has been estimated to be \$1.2 million based on the cost of the past two such elections.

Oversight will assume the proposal would be voted on at the general election in November and will reflect the costs accordingly. Oversight will only show the costs to be incurred by the SOS - Elections in the fiscal note (and not the anticipated increase in revenue as well as DOR's additional expenses), since the changes to the income tax structure is depended upon voter approval.

| <u>FISCAL IMPACT - State Government</u> | FY 2007 (10 Mo.) | FY 2008 | FY 2009 |
|---|---------------------------|-------------------|-------------------|
| GENERAL REVENUE | | | |
| <u>Costs - Secretary of State</u> | | | |
| Advertising costs for income tax referendum | <u>(\$131,400)</u> | <u>\$0</u> | <u>\$0</u> |
| ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND | <u>(\$131,400)</u> | <u>\$0</u> | <u>\$0</u> |
| <u>FISCAL IMPACT - Local Government</u> | FY 2007 (10 Mo.) | FY 2008 | FY 2009 |
| | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

FISCAL IMPACT - Small Business

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

DESCRIPTION

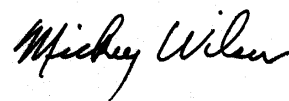
For all taxable years beginning January 1, 2006, upon voter approval, this bill changes the state individual income tax by:

- (1) Eliminating the deduction for federal income taxes paid currently capped at \$5,000 for single taxpayers and \$10,000 for married taxpayers;
- (2) Establishing a refundable tax credit of \$150 per family member including the taxpayer, the taxpayer's spouse, and the taxpayer's dependents, based on the taxpayer's Missouri adjusted gross income. A phase-out of the credit occurs between \$30,000 and \$50,000. Incomes greater than \$50,000 are not eligible for the credit; and
- (3) Eliminating the current income tax rates and brackets and creating new brackets and rates. Currently, the maximum rate is 6% for incomes over \$9,000. The new rate maximum will be 9% for taxable incomes over \$50,000.

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 - Budget and Planning
Office of the Secretary of State
University of Missouri
Economic & Policy Analysis Research Center



Mickey Wilson, CPA

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