

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1091-01  
Bill No.: HB 307  
Subject: Elderly; Property, Real and Personal; Revenue Dept.; Taxation and Revenue -  
Income; Taxation and Revenue - Property  
Type: Original  
Date: February 6, 2007

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Bill Summary: Would authorize a tax credit for certain elderly and disabled individuals  
for real property taxes paid.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	\$0	(\$7,203,277)	(\$7,208,844)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>(\$7,203,277)</b>	<b>(\$7,208,844)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 7 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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## **FISCAL ANALYSIS**

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### **ASSUMPTION**

Officials from the **State Tax Commission**, the **Office of the Boone County Collector** and **St. Louis County** assume this proposal would have no fiscal impact on their organizations.

Officials from the **Office of the Secretary of State** (SOS) stated that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. SOS 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 SOS for Administrative Rules is less than \$2,500. SOS 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 **Department of Revenue** (DOR) assume the proposal would provide for a refundable credit against income tax for 50% of the property taxes paid by certain taxpayers meeting the eligibility requirements.

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

The US Census for 2005 reports that 721,138 Missouri residents are age 65 years and over, 533,517 veterans reside in Missouri, and 906,570 Missouri residents aged five and over are disabled as defined in the proposal. 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 would do so in order to get the 50% refund on their property tax.

ASSUMPTION (continued)

Administrative Impact:

Forms - A new and separate worksheet would need to be created; however, the Forms Section assumes DOR could absorb these costs.

Personal Tax - This proposal would require an additional line on the Form MO-1040 and 1040 related forms. Personal Tax would require 2 Temporary Tax Employees for key-entry, 1 Tax Processing Technician I for every 19,000 returns to be verified by Quality Review, and 1 Tax Processing Technician I for every 2,400 pieces of correspondence. They would also require 2 Temporary Tax Employees for key-entry of 1040P and PTC forms, and 1 Tax Processing Technician I for every additional 5,000 verified returns plus correspondence on the 1040P/PTC forms.

Customer Assistance would anticipate an increase in the volume of walk-ins, telephone calls, and general assistance. Customer Assistance would require 1 Tax Collection Technician I for every additional 15,000 contacts on the delinquency line (due to lack of documentation).

Customer Assistance assumes the additional workload could be handled with Temporary Tax Employees since DOR currently handles this type of tax issue with the existing Homestead Preservation Credit and Property Tax Credit.

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request could be accomplished with existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. ITSD DOR estimates that this legislation would require 5 existing CIT III for 3 months at a rate of \$62,790.

DOR submitted a cost estimate including additional tax season temporary help as well as 4.0 additional FTE. The cost estimate including the additional FTE and related equipment and expenditures totaled \$273,706 for FY 2008, \$309,810 for FY 2009, and \$317,612 for FY 2010. In response to a similar proposal in the previous session (HB 1215 LR 3619-01, 2006) DOR submitted a cost estimate including 3.0 FTE.

**Oversight** will use the prior DOR estimate of costs. If unanticipated expenses are incurred or if multiple proposal which add to the DOR workload, additional resources could be requested through the budget process.

ASSUMPTION (continued)

**Oversight** has, for fiscal note purposes only, changed the starting salary for the additional staff 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. In addition, Oversight has reduced certain equipment and expense items in accordance with Office of Administration budget guidelines. Oversight assumes that the relatively small number of additional staff can be located in existing office space. Since the proposal would be effective for tax years beginning after January 1, 2008, Oversight assumes that DOR would incur additional cost beginning in FY 2009.

Officials from the **University of Missouri Economic Policy and Research Center (EPARC)** assume this proposal would provide a tax credit for Missouri taxpayers who have lived in the same residence for twenty years and have paid more than ten percent of their income in property taxes. The taxpayer must also be 65 or older, a 100% disabled veteran, or a disabled person. The proposed tax credit would be equal to fifty percent on the property tax and would be applied against the taxpayer's income tax liability.

EPARC assumes that 7,043 filers would switch from the current circuit breaker provision and receive a total of \$7.7 million in tax credits. Those taxpayers who switch would forego the circuit breaker tax provision and would lose \$4.1 million in tax credits. An additional 5,102 filers would continue to use the circuit breaker provision and receive \$3.4 million in tax credits. EPARC calculated the net General Revenue Fund impact as a net loss of \$7 million per year.

**Oversight** assumes for purposes of this fiscal note that the reduction in General Revenue Fund tax revenues would be constant. The actual reduction in future years would likely depend on changes in property taxes and income levels among eligible taxpayers, and on other changes to the state's tax provisions.

**This proposal would reduce Total State Revenue.**

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
<b>GENERAL REVENUE FUND</b>			
<u>Costs - Department of Revenue</u>			
Personal Service (3 FTE)	\$0	(\$66,077)	(\$68,059)
Fringe Benefits	\$0	(\$29,113)	(\$29,987)
Expense and Equipment	\$0	(\$1,554)	(\$1,601)
Temporary Employees	<u>\$0</u>	<u>(\$106,533)</u>	<u>(\$109,197)</u>
<u>Total Costs - DOR</u>	<u>\$0</u>	<u>(\$203,277)</u>	<u>(\$208,844)</u>
 <u>Loss - Revenue reduction from tax credit for certain elderly and disabled persons for real property taxes paid</u>	 <u>\$0</u>	 <u>(\$7,000,000)</u>	 <u>(\$7,000,000)</u>
 <b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	 <b><u>\$0</u></b>	 <b><u>(\$7,203,277)</u></b>	 <b><u>(\$7,208,844)</u></b>
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<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.

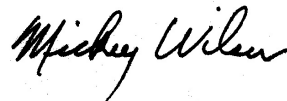
FISCAL DESCRIPTION

This proposal would authorize a tax credit for certain elderly and disabled individuals for real property taxes paid.

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

Office of the Secretary of State  
Department of Revenue  
State Tax Commission  
St. Louis County  
Office of the Boone County Collector  
University of Missouri  
Economic Policy and Research Center

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

Mickey Wilson, CPA  
Director  
February 6, 2007