

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3100-01
Bill No.: HB 1365
Subject: Disabilities; Elderly; Revenue Dept.; Taxation and Revenue - General;
Taxation and Revenue - Income; Taxation and Revenue - Property
Type: Original
Date: January 23, 2008

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	\$0	(\$2,522,809)	(\$2,537,890)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$2,522,809)	(\$2,537,890)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	0	3	3
Total Estimated Net Effect on FTE	0	3	3

☐ 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).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** provided the following response:

Many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The 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 the SOS for Administrative Rules is less than \$2,500. The 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 **State Tax Commission** assume this proposal would not have a significant direct fiscal impact on their organization, and defer to the Department of Revenue for an estimate of the fiscal impact to the state.

Officials from **Office of Administration, Division of Budget and Planning** did not respond to our request for information.

Officials from the **Department of Revenue (DOR)** assume this proposal would create a new tax credit. Tax credits decrease tax liabilities, which cause a decrease in state revenues.

This proposal would create a tax credit for taxpayers who have been a Missouri resident for 25 years and have lived at their homestead for at least 20 years. A qualified claimant would have to pay more than 10% of their household income in real property tax on the taxpayer's homestead. The tax credit would be equal to 50% of the property taxes accrued or \$1,500, whichever is less. The tax credit would be applied against the income tax liability after all other applicable credits have been applied, would be refundable but could not be transferred, sold, or assigned. Finally, the tax credit would not be allowed if the taxpayer filed a valid claim under Section 137.010 to 135.030 or Section 137.106 for the same tax year. DOR would promulgate rules and regulations administering the provisions of this section. DOR assumes that new income tax forms and instructions would be required, and that programming changes would be required in MINITS and Speed-up.

ASSUMPTION (continued)

DOR estimated the fiscal impact to the state as follows.

The US Census for 2005 reports 721,138 Missouri residents are age 65 years and over, 533,517 veterans are residing in Missouri (this census does not distinguish how many of these veterans are disabled and how many are simply veterans), and 906,570 Missouri 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% or \$1,500 refund on their property tax as a result of this credit.

Personal Tax would need:

- * 2 Temporary Tax Employees for key-entry of the new worksheet for the MO-1040;
- * 1 Tax Processing Tech I for every 19,000 returns and affidavits to be verified by Quality Review;
- * 1 Tax Processing Tech I for every 2,400 pieces of correspondence received and reviewed for the MO-1040;
- * 2 Temporary Tax Employees for key-entry of the new worksheet for the MO-1040P
- * 1 Tax Processing Tech I for every additional 5,000 verified MO-1040P returns, plus correspondence.

Customer Assistance would need:

- * 1 Tax Collection Technician I for every additional 15,000 contacts on the delinquency line;
- * 7 Temporary Tax Employees, 1 employee for help on the income tax phone line and 6 employees for help in the field offices with phones and walk-ins.

ASSUMPTION (continued)

In summary, DOR submitted a cost estimate including 4.0 additional FTE with related equipment and expenses totaling \$256,535 for FY 2009, \$290,398 for FY 2010, and \$299,110 for FY 2011. In response to a similar proposal in a 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. 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, 2009, Oversight assumes that DOR would incur additional cost beginning in FY 2010.

Officials from the **University of Missouri Economic Policy and Research Center (EPARC)** assume this proposal would provide a tax credit for Missouri taxpayers that are elderly or disabled and own no more than five acres of land with a residence for at least twenty years. Such individual income tax filers would qualify for a credit against their income taxes after payment conditions are satisfied. The tax credit is equal to 50 percent of the tax bill or \$1,500 whichever is less.

EPARC assumes that 5,556 filers would switch from the current circuit breaker provision and receive a total of \$5.8 million in tax credits. Those taxpayers who switch would forego the circuit breaker tax provision and would lose \$3.5 million in tax credits. An additional 3,302 filers would continue to use the circuit breaker provision and receive \$2.4 million in tax credits. EPARC calculated the net General Revenue Fund impact as a net loss of \$4.7 million per year.

ASSUMPTION (continued)

Oversight will use the EPARC estimate of general revenue fund impact; however, Oversight assumes that the fiscal impact of this proposal would be limited to the additional amount of tax credits for taxpayers who switch from the existing Circuit Breaker Tax Credit program to the new tax credit. This amount is (\$5.8 million less \$3.5 million) = \$2.3 million.

Oversight also 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 could reduce Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
<u>Cost - DOR</u>			
Personal Service (3.0 FTE)	\$0	(\$68,042)	(\$70,083)
Temporary employees	\$0	(\$73,645)	(\$93,756)
Fringe benefits	\$0	(\$62,654)	(\$72,450)
Expense and equipment	<u>\$0</u>	<u>(\$18,468)</u>	<u>(\$1,601)</u>
Total	<u>\$0</u>	<u>(\$222,809)</u>	<u>(\$237,890)</u>
Revenue reduction - tax credit for certain elderly and disabled persons for real property taxes paid	<u>\$0</u>	<u>(\$2,300,000)</u>	<u>(\$2,300,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$2,522,809)</u>	<u>(\$2,537,890)</u>
Estimated net effect on FTE.	0	3	3
<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
	<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.

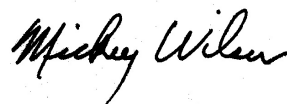
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Department of Revenue
State Tax Commission
University of Missouri
Economic and Policy Analysis Research Center

NOT RESPONDING

Office of Administration
Division of Budget and Planning



Mickey Wilson, CPA
Director
January 23, 2008