

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3540-01  
Bill No.: HB 1562  
Subject: Employees - Employers; Military Affairs; Revenue Dept.; Tax Credits; Taxation  
and Revenue - Income  
Type: Original  
Date: January 25, 2008

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Bill Summary: Would authorize a tax credit to a taxpayer for 100% of the salary and  
benefits paid to an employee while on active military duty.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	(\$532,001)	(\$533,228)	(\$534,275)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$532,001)</b>	<b>(\$533,228)</b>	<b>(\$534,275)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
<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 2009	FY 2010	FY 2011
<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 2009	FY 2010	FY 2011
General Revenue	1	1	1
<b>Total Estimated Net Effect on FTE</b>	<b>1</b>	<b>1</b>	<b>1</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 2009	FY 2010	FY 2011
<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 **Office of Administration, Administrative Hearing Commission, the Department of Conservation, and the Department of Transportation** assume this proposal would have no fiscal impact on their organization.

Officials from the **Office of the Secretary of State (SOS)** provided this 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 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 Economic Development (DED)** assume there would be no fiscal or administrative impact on our department from this proposed legislation. DED assumes there would be statewide impact of \$500,000 per year.

Although they did not respond to our request for information, officials from the **Department of Transportation (MODOT)** assumed that a similar proposal in the previous session (HB 520, LR 1075-01, 2007) would have no fiscal impact to their organization.

Officials from the **Office of Administration, Division of Budget and Planning, (BAP)** assume there would be no added cost to their organization as a result of this proposal.

This proposal would provide employers a refundable tax credit of 100% of the salary and benefits paid to an employee during the period the employee is called to active military duty. The cumulative amount of tax credits redeemed by the Department of Revenue in any one fiscal year is \$500,000. BAP assumes the loss to general and total revenues to be \$500,000 each year.

ASSUMPTION (continued)

Officials from the **Department of Public Safety, Missouri Veterans Commission (VETS)** assume this proposal would have no fiscal impact on their organization. VETS officials also provided the number of Missouri residents on active military duty as of December 31, 2007.

Active Duty Military	1,153
Guardsmen	734
Reservists	<u>1,043</u>
Total	<u>2,930</u>

**Oversight** has researched available U.S. Census Bureau data regarding wage and salary earnings. Average US wage and salary payments for 2006 were \$40,238 and therefore the maximum tax credits that could be claimed, if Missouri active duty military had average US salary and wage payments, would be (2,930 active duty military x \$40,238 average salary) \$117 million. The participation rate for this proposed tax credit is unknown, but Oversight assumes for purposes of preparing this fiscal note that the entire \$500,000 tax credit amount would be claimed.

Although officials from the **Department of Revenue (DOR)** assume this proposal would create a new tax credit for the salary and related benefits paid to any employee of the taxpayer during the period the employee is called to active military duty. The credit would be equal to 100% of such salary and benefits paid. The credit is refundable and may not be transferred, sold, or assigned. The cumulative amount of tax credits in any one fiscal year could not exceed \$500,000.

DOR officials estimated the administrative impact to be one Tax Processing Technician I for every 4,000 credits claimed, for verification and allocation purposes. DOR officials provided an estimated cost based on one Tax Processing Technician I for verification and allocation purposes for Corporate Tax, and one Tax Processing Technician I for verification and allocation purposes for Personal Tax.

DOR also provided an estimate of the IT cost to implement this proposal.

Office of Administration Information Technology Services Division (ITSD/DOR) assumes 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 could be implemented utilizing two existing CIT III for two months and an additional three CIT III for 1 month, for a total of \$29,302.

ASSUMPTION (continued)

In summary, DOR submitted a cost estimate including three additional FTE and related equipment totaling \$110,179 for FY 2009, \$116,171 for FY 2010, and \$119,657 for FY 2011.

**Oversight** will assume that one additional FTE would be required due to the limited number of active duty military personnel, and Oversight has, for fiscal note purposes only, changed the starting salary for that additional position 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. Oversight has also adjusted the DOR estimate of equipment and expenditures in accordance with OA budget guidelines, and Oversight assumes that one additional employee could be accommodated in existing office space.

**This proposal could reduce total state revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
<b>GENERAL REVENUE FUND</b>			
<u>Cost - Department of Revenue</u>			
Personal Service (1.0 FTE)	(\$18,350)	(\$22,681)	(\$23,361)
Fringe Benefits	(\$8,114)	(\$10,029)	(\$10,380)
Expense and Equipment	<u>(\$5,537)</u>	<u>(\$518)</u>	<u>(\$534)</u>
Total	<u>(\$32,001)</u>	<u>(\$33,228)</u>	<u>(\$34,275)</u>
Revenue reduction - Tax credits	<u>(\$500,000)</u>	<u>(\$500,000)</u>	<u>(\$500,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$532,001)</u></b>	<b><u>(\$533,228)</u></b>	<b><u>(\$534,275)</u></b>
Estimated Net FTE Effect on General Revenue Fund	1	1	1

FISCAL IMPACT - Local Government

FY 2009  
(10 Mo.)

FY 2010

FY 2011

\$0

\$0

\$0

FISCAL IMPACT - Small Business

This proposal could have a fiscal impact to small businesses which continue salary and benefit payments to active duty military personnel.

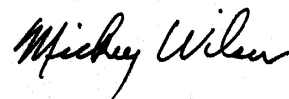
FISCAL DESCRIPTION

This proposal would authorize a tax credit to a taxpayer for 100% of the salary and benefits paid to an employee while on active military duty.

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 Administration  
    Administrative Hearing Commission  
    Division of Budget and Planning  
Office of the Secretary of State  
Department of Public Safety  
    Missouri Veterans Commission  
Department of Economic Development  
Department of Conservation  
Department of Revenue  
Department of Transportation



Mickey Wilson, CPA  
Director

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