

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4398-04
Bill No.: HCS for HB 2156
Subject: Revenue Department; Tax Credits; Taxation and Revenue - Income.
Type: Original
Date: April 3, 2008

Bill Summary: This proposal authorizes the Motherhood/Fatherhood Stay-at-home tax credit for a parent who stays at home to provide care for a child up to 24 months of age.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|----------------------|----------------------|----------------------|
| FUND AFFECTED | FY 2009 | FY 2010 | FY 2011 |
| General Revenue | (\$2,066,052) | (\$2,068,303) | (\$2,070,353) |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | (\$2,066,052) | (\$2,068,303) | (\$2,070,353) |

| 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 6 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 | 2 FTE | 2 FTE | 2 FTE |
| | | | |
| Total Estimated Net Effect on FTE | 2 FTE | 2 FTE | 2 FTE |

☐ 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 Administration - Budget and Planning (BAP)** state this proposal creates a tax credit for any parent, who was previously employed, who chooses to forego employment to care for an eligible child less than 24 months of age. This tax credit is not refundable, but may be carried forward up to three years. There is a \$2 million cap on the program.

According to a United States Census Bureau press release , the United States had an estimated 5.5 million "stay-at-home" parents [in 2003]. The press release estimates 42% of these parents had children under age 3. BAP therefore estimates 2/3 of these would have children under age 2, and 1.8% of these would be in Missouri, for an estimated 28,000 Missouri households. According to the United States Bureau of Labor, the average salary in 2006 was just over \$37,000. BAP estimates the average salary to be \$40,000 in 2008. Under the proposal, this would qualify for a 20% tax credit, or \$8,000.

Based on these data, it is likely the \$2 million cap could be reached. Therefore, this proposal would reduce general and total state revenues by that amount.

Officials from the **Office of the Secretary of State (SOS)** assume 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 **Department of Revenue (DOR)** state their Personal Tax section would require one Tax Processing Technician I for every 4,000 credits claimed. Also, DOR's Customer Assistance would require:

- 1 Tax Collection Technician I for every 15,000 calls a year on the income tax phone line;

ASSUMPTION (continued)

- 1 Tax Collection Technician I for every 24,000 calls a year to the delinquency phone line;
- 3 Tax Processing Technician I for every additional 4,800 contacts in the field offices (Taxation anticipates most customers will contact the department via phone, therefore, will only request 1 Full Time Employee for each of the larger field offices including Kansas City, St. Louis, and Springfield).

DOR assumes the cost of these additional six FTEs would total roughly \$230,000 annually.

DOR also states that due to the Statewide Information Technology Consolidation, their response to a proposal will now also reflect the cost estimates prepared by OA-IT for impact to the various systems. As a result, the impact shown may not be the same as previous fiscal notes submitted. In addition, if the legislation is Truly Agreed To and Finally Passed, the OA-IT costs shown will be requested through appropriations by OA-IT.

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources; however, if priorities shift, additional FTE/overtime would be needed to implement. Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 1 existing CIT III for 2 months for modifications to MINITS. The estimated cost is \$8,372.

Oversight generally ranges tax credits from \$0 to the program's annual limit; however, Oversight assumes the \$2 million annual cap on this program will be reached every year. Therefore, Oversight will simply reflect a loss of \$2 million as a result of this program.

Oversight assumes the State will receive a benefit from this program; however, Oversight considers this to be an indirect fiscal impact and will not reflect it on the fiscal note.

Oversight assumes there will be many Missourians apply for this credit and that the program will add to the workload of the Department of Revenue. Oversight is unsure if an additional six FTE will be necessary. Oversight will assume the DOR will be able to administer this program with two additional FTEs. 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 and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. In addition, Oversight assumes that the relatively small number of additional staff can be located in existing office space.

This proposal will reduce Total State Revenues.

| <u>FISCAL IMPACT - State Government</u> | FY 2009 (10 Mo.) | FY 2010 | FY 2011 |
|---|-----------------------------|-----------------------------|-----------------------------|
| GENERAL REVENUE FUND | | | |
| <u>Costs - Department of Revenue</u> | | | |
| Personal Service (2 FTE) | (\$37,801) | (\$46,722) | (\$48,124) |
| Fringe Benefits | (\$16,716) | (\$20,660) | (\$21,280) |
| Expense and Equipment | (\$11,535) | (\$921) | (\$949) |
| <u>Total Costs - DOR</u> | (\$66,052) | (\$68,303) | (\$70,353) |
| FTE Change - DOR | 2 FTE | 2 FTE | 2 FTE |
| <u>Loss - tax credit for stay-at-home parents</u> | (\$2,000,000) | (\$2,000,000) | (\$2,000,000) |
| ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND | <u>(\$2,066,052)</u> | <u>(\$2,068,303)</u> | <u>(\$2,070,353)</u> |
| Estimated Net FTE Change for General Revenue Fund | 2 FTE | 2 FTE | 2 FTE |
| <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

Beginning January 1, 2008, this bill authorizes the Motherhood/Fatherhood Stay-at-Home tax credit for a married parent who stays at home to provide care for her/his dependent child up to 24 months of age. Any parent who was gainfully employed before the birth or adoption of a child whose annual salary was less than \$100,000 in the year before choosing to become a stay-at-home parent is eligible for the tax credit. The credit will be 25% of the stay-at-home

parent's annual salary if the salary is \$35,000 or less, 20% if the annual salary is between \$35,000 and \$70,000,

FISCAL DESCRIPTION (continued)

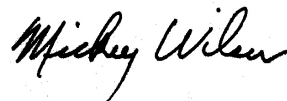
or 15% if the annual salary is between \$70,000 and \$100,000. The tax credit cannot be refunded, transferred, sold, or assigned but can be carried forward up to three years. The annual cumulative amount of credits issued may not exceed \$2 million.

The provisions of the bill will expire December 31 six years after the effective date.

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



Mickey Wilson, CPA
Director
April 3, 2008