

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5154-01  
Bill No.: HB 2189  
Subject: Revenue Dept.; Taxation and Revenue - Income  
Type: Original  
Date: March 3, 2008

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Bill Summary: Would exempt 2008 federal tax rebates from state income tax.

**FISCAL SUMMARY**

| <b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>                   |            |                                      |            |
|-----------------------------------------------------------------------|------------|--------------------------------------|------------|
| FUND AFFECTED                                                         | FY 2009    | FY 2010                              | FY 2011    |
| General Revenue                                                       | \$0        | (Less than<br>\$160,200,000)         | \$0        |
|                                                                       |            |                                      |            |
| <b>Total Estimated<br/>Net Effect on<br/>General Revenue<br/>Fund</b> | <b>\$0</b> | <b>(Less than<br/>\$160,200,000)</b> | <b>\$0</b> |

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

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    |
|                                                               |            |            |            |
|                                                               |            |            |            |
| <b>Total Estimated Net Effect on <u>All</u> Federal Funds</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) |          |          |          |
|----------------------------------------------------|----------|----------|----------|
| FUND AFFECTED                                      | FY 2009  | FY 2010  | FY 2011  |
|                                                    |          |          |          |
|                                                    |          |          |          |
| <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).

| ESTIMATED NET EFFECT ON LOCAL FUNDS |            |            |            |
|-------------------------------------|------------|------------|------------|
| 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, Division of Budget and Planning** (BAP) assume there would be no added cost to their organization as a result of this proposal.

BAP officials stated that the proposal would provide a deduction from Modified Adjusted Gross Income (MAGI) equivalent to the amount of any federal rebates or credits allowed as an economic stimulus in 2008 to the extent such rebate is included in MAGI, and to the extent such rebate or credit taken together with previous federal deductions does not exceed existing statutory limits.

Officials from the **Department of Revenue** (DOR) assumed a similar proposal (SB 1069 LR 4819-01) would have no fiscal impact on their organization. DOR officials provided an estimate of the IT cost to implement this proposal.

The Office of Administration, Information Technology Services Division (ITSD/DOR) estimates that this legislation could be implemented utilizing two existing CIT III for two months for a total estimated cost of \$16,744. 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.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assumed a similar proposal (SB 1069 LR 4819-01) would exempt federal tax rebates paid in 2008 from state income tax. While the Missouri filer would identify income from a variety of earning sources, the rebate does not constitute an income source that would have been expected. Nor does the rebate affect the federal tax base. In the absence of any change to the tax base, the rebate neither adds nor subtracts to Missouri taxable income. Accordingly, EPARC assumes the fiscal impact of this bill is zero.

**Oversight** has estimated the potential fiscal impact of this proposal. According to the federal Internal Revenue Service, there were 2.6 million tax returns filed for 2005, of which 1.5 million were single filers and 1.1 million were joint filers. There were a total of 5.2 million exemptions claimed on these returns. The federal program would provide rebates of \$600 for single filers and \$1,200 for joint filers, \$300 for dependents, and \$300 for Social Security recipients and disabled veterans if they earned at least \$3,000 in benefits in 2007. Oversight assumes that all of the rebates would be received by Missouri filers in the second half of 2008 and all of the fiscal impact would be in FY 2009.

ASSUMPTION (continued)

|                                                                            |                        |
|----------------------------------------------------------------------------|------------------------|
| Total exemptions                                                           | 5,200,000              |
| Joint filers (1,100,000 filers x 2 exemptions)                             | -2,200,000             |
| Single filers (1,500,000 x 1 exemption)                                    | <u>-1,500,000</u>      |
| Estimated remaining exemptions                                             | <u>1,500,000</u>       |
| Single filer rebates - (1,500,000 x \$600)                                 | \$900,000,000          |
| Joint filer rebates - (1,100,000 x \$1,200)                                | \$1,320,000,000        |
| Rebates for dependents and others (1,500,000 x \$300)                      | <u>\$450,000,000</u>   |
| Estimated total rebates                                                    | <u>\$2,670,000,000</u> |
| Maximum Missouri income tax on rebates<br>( $\$2,670,000,000 \times 6\%$ ) | <u>\$160,200,000</u>   |

Oversight assumes the reduction in potential state income tax revenue would be significantly less than the maximum of \$167.4 million due to several factors.

- \* The federal rebates would be reduced for individuals with incomes over \$75,000 and joint filers with incomes over \$150,000.
- \* Many Missouri filers would be taxed on the federal rebates because their federal tax deduction exceeds the existing statutory limits.
- \* Many federal rebate recipients would not owe Missouri income tax since they have no Missouri taxable income.

Oversight is not able to estimate the impact of these exceptions and will indicate a fiscal impact less than \$167.4 million for FY 2009 for this fiscal note.

| <u>FISCAL IMPACT - State Government</u>                                        | FY 2009<br>(10 Mo.)     | FY 2010                                 | FY 2011           |
|--------------------------------------------------------------------------------|-------------------------|-----------------------------------------|-------------------|
| <b>GENERAL REVENUE FUND</b>                                                    |                         |                                         |                   |
| <u>Revenue reduction</u> - deduction for federal economic stimulus tax rebates | <u>\$0</u>              | <u>(Less than \$160,200,000)</u>        | <u>\$0</u>        |
| <b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>                            | <b><u>\$0</u></b>       | <b><u>(Less than \$160,200,000)</u></b> | <b><u>\$0</u></b> |
| <br><u>FISCAL IMPACT - Local Government</u>                                    | <br>FY 2009<br>(10 Mo.) | <br>FY 2010                             | <br>FY 2011       |
|                                                                                | <u><b>\$0</b></u>       | <u><b>\$0</b></u>                       | <u><b>\$0</b></u> |

FISCAL IMPACT - Small Business

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

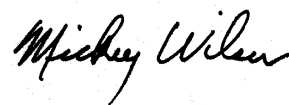
FISCAL DESCRIPTION

The proposal would exempt federal economic stimulus tax rebates from Missouri tax.

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  
Division of Budget and Planning  
Department of Revenue  
University of Missouri  
Economic and Policy Analysis Research Center



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