C O M M I T T E E   O N   L E G I S L A T I V E   R E S E A R C H
O V E R S I G H T   D I V I S I O N

## FISCAL NOTE

L.R. No.: 3488-01
Bill No.: HB 2034
Subject: Revenue Dept.; Taxation and Revenue - Income
Type: #Corrected
Date: March 17, 2010
# Corrected Oversight assumption.

Bill Summary: Would revise Missouri individual income tax provisions.

## FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2011 | FY 2012 | FY 2013 |
| #General Revenue | $0 or (More than $7,000,000) | $0 or $1,279,940,518 | $0 or $1,279,899,551 |
| | | | |
| **#Total Estimated Net Effect on General Revenue Fund** | **$0 or (More than $7,000,000)** | **$0 or $1,279,940,518** | **$0 or $1,279,899,551** |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2011 | FY 2012 | FY 2013 |
| | | | |
| | | | |
| **Total Estimated Net Effect on Other State Funds** | **$0** | **$0** | **$0** |

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 10 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2011 | FY 20121 | FY 2013 |
| | | | |
| | | | |
| Total Estimated Net Effect on All Federal Funds | **$0** | **$0** | **$0** |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2011 | FY 2012 | FY 2013 |
| General Revenue | 0 | 2 | 2 |
| | | | |
| **Total Estimated Net Effect on FTE** | **0** | **2** | **2** |

☐ 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 2011 | FY 2012 | FY 2013 |
| **Local Government** | **$0** | **$0** | **$0** |

## FISCAL ANALYSIS

ASSUMPTION

In response to similar proposals, 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 Secretary of State's Office 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.

In response to similar proposals, officials at the **Office of the Secretary of State** (**SOS**) assume unless a special election is called for the purpose, Joint Resolutions are submitted to a vote of the people at the next general election. If a special election is called to submit a Joint Resolution to a vote of the people, section 115.063.2 RSMo requires the state to pay the costs. Article III section 52(b) of the Missouri Constitution authorizes the general assembly to order a special election for measures referred to the people and Article XII section 2(b) authorizes the governor to call a special election to submit constitutional amendments to a vote of the people.

ASSUMPTION (continued)

The SOS is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article I, Section 26, 27, 28 of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with $1.3 million historically appropriated in odd numbered fiscal years and $100,000 appropriated in even numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2009, at the August and November elections, there were 5 statewide Constitutional Amendments or ballot propositions that cost $1.35 million to publish (an average of $270,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. However, because these requirements are mandatory, we reserve the right to request funding to meet the cost of our publishing requirements if the Governor and the General Assembly change the amount or eliminate the estimated nature of our appropriation.

**Oversight** has reflected in this fiscal note, the state potentially reimbursing local political subdivisions the cost of having this proposal voted on during a special election in fiscal year 2011. This reflects the decision made by the Joint Committee on Legislative Research, that the cost of the elections should be shown in the fiscal note. The next scheduled general election is in November 2010 (FY 2011). It is assumed the subject within this proposal could be on that ballot; however, it could also be on a special election called for by the Governor. Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2011.

To estimate the expense the state would incur for reimbursing local political subdivisions for a special election, **Oversight** requested expense estimates from all election authorities for an election. Eighty-six out of the one hundred fifteen election authorities responded to Oversight's request. From these respondents; the total election expense that would have to be reimbursed by the state government is over $7 million. Therefore, Oversight will reflect a potential cost borne by the state in FY 2011 of over $7 million for reimbursement to the local political subdivisions. Oversight assumes the Governor could call for a special election to be held prior to November, 2010 regarding this joint resolution; however, if a special election is not called, the subject will be voted on at the general election in November, 2010.

ASSUMPTION (continued)

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 modify the individual income tax structure in Missouri; raising the top marginal rate from 6% (on income above $9,000) to 9% (on income above $50,000), eliminating the deduction for federal income taxes paid, and creating a refundable tax credit of $150 per taxpayer, which phases down to $0 for income above $50,000.

BAP officials assume this proposal would increase general and total state revenues by a significant amount, and would therefore be subject to voter approval. BAP officials noted that the proposal includes an election clause and deferred to the University of Missouri, Economic and Policy Analysis Research Center for an estimate of the impact.

Officials from the **Department of Revenue** (DOR) assume the proposal would provide a new tax rate schedule for tax years beginning January 1, 2011. In addition, beginning January 1, 2011 a resident taxpayer would be allowed a credit against the tax due based on the taxpayer's filing status and federal adjusted gross income. If the credit exceeded the income tax due it would be refundable. After December 31, 2010 an individual would not be allowed a deduction for his federal income tax liability.

The Department of Revenue could promulgate rules to implement the provisions. The Department would need to make forms changes. Withholding tax tables would need to be changed due to the change in individual income tax rates. Information Technology staff assistance would not be required.

The Department and ITSD-DOR would need to make modifications to Missouri Individual Income Tax System (MINITS) for years 2011 and beyond.

The proposal would be submitted to the voters on the Tuesday immediately following the first Monday in November, 2010.

ASSUMPTION (continued)

Administrative impact

DOR officials assume that Personal Tax would require two FTE Temporary Tax Employees for key entry, one FTE Revenue Processing Technician I (Range 10, Step L) per 19,000 returns verified, and one FTE Revenue Processing Technician I (Range 10, Step L) per 2,400 pieces of correspondence. DOR officials also assume that Collections and Tax Assistance would require one FTE Tax Collection Technician I (Range 10, Step L) for every additional 15,000 contacts annually on the delinquent line, one FTE Tax Collection Technician I (Range 10, Step L) for every additional 24,000 contacts annually on the non-delinquent line, and one FTE Revenue Processing Technician I (Range 10, Step L) for every additional 4,800 contacts annually in the tax assistance offices.

DOR provided an estimate of the total cost to implement this proposal including five additional employees with related benefits, equipment, and expenses totaling $211,644 for FY 2011, $226,957 for FY 2012, and $233,767 for FY 2013.

**Oversight** notes that DOR provided an estimate of fiscal impact for a similar proposal in a previous session (HB 2131, LR 4711-01, 2008) which indicated that proposal could be implemented with two additional employees. Oversight will assume for fiscal note purposes that DOR could implement this proposal with two additional employees.

**Oversight** has, for fiscal note purposes only, changed the starting salary for the additional positions 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. Finally, Oversight assumes that a limited number of additional employees could be accommodated in existing office space.

Oversight assumes the DOR estimate of expense and equipment cost for additional FTE could be overstated. If DOR is able to use existing equipment such as desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly $5,000 per employee.

ASSUMPTION (continued)

**Oversight** notes that this proposal would be subject to voter approval and an election could be held at any time after September 28, 2010. Since the DOR costs would be effective for tax years beginning January 1, 2011 and would only be incurred if the voters approved the proposal, Oversight will indicate an impact for DOR of $0 or the adjusted estimate of cost beginning January 1, 2012.

DOR officials provided an estimate of the IT cost to implement the proposal of $17,764 based on two employees for two months at $4,441 per month to make programming changes to the individual income tax system (MINITS).

**Oversight** assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

Officials from the **University of Missouri**, **Economic and Policy Analysis Research Center** (EPARC) assume this proposal would, if enacted, modify state income tax rates and disallow the deduction for federal income taxes paid by individual taxpayers. As well, it would create a refundable state income tax credit based on the taxpayer's filing status and income.

Personal income tax rate

EPARC officials estimated that the proposed changes to the tax rate schedule would increase Missouri individual income tax from the 2008 baseline simulation of $4,982 million to the proposed rate simulation of $6,625 million. This represents an increase in net tax due of $1,643 million.

Federal tax deduction

EPARC officials assume the proposed disallowance of federal income taxes paid by individual taxpayers would increase taxable income, thereby increasing net tax due. EPARC officials reported that the simulation for this provision resulted in net tax due of $6,825.6 million, an increase of $1,843.6 million from the baseline, and an additional increase of $200.6 million from the simulation of proposed tax rates. Therefore, disallowing the deduction for federal income taxes under the proposed tax bracket would increase net tax due by an additional $200.6 million.

ASSUMPTION (continued)

State income tax credit

EPARC officials stated the simulation of the proposed refundable state income tax credit indicated that the amount of general tax credits would increase from the $180.3 million to $743.7 million. This is an increase of $563.4 million and would correspond with a $563.4 million decrease in Net General Revenue. The additional tax credits would result in a reduction in Net Tax Due of $341.4 million, the amount of credits allotted to taxpayers who would still owe taxes after the credit. The remaining portion of the additional tax credits would be refunded to taxpayers who would no longer owe taxes after the credit.

**#Oversight** will record the net overall increase in personal income tax of $1,280 million for #fiscal note purposes. Oversight notes that the proposal, if implemented, would impact 2011 #personal income taxes. Although there would be a revenue increase to the General Revenue #Fund beginning as soon as the Department of Revenue provided adjusted withholding tables, #most of the impact would be recorded beginning in January 2012 (FY 2012) when 2011 #personal income tax returns are filed.

| FISCAL IMPACT - State Government | FY 2011 | FY 2012 (6 Mo.) | FY 2013 |
|---|---|---|---|
| **GENERAL REVENUE FUND** | | | |
| Cost - DOR | | | |
| Salaries (2 FTE) | $0 | $0 or ($31,636) | $0 or ($65,169) |
| Benefits | $0 | $0 or ($16,590) | $0 or ($34,175) |
| Equipment and expense | $0 | $0 or ($11,256) | $0 or ($1,105) |
| Total | $0 | $0 or ($59,482) | $0 or ($100,449) |
| Expense - reimbursement of local political subdivisions for special election costs | $0 or (More than $7,000,000) | $0 | $0 |
| #Revenue increase - changes in personal income tax provisions | $0 | $0 or $1,280,000,000 | $0 or $1,280,000,000 |
| **#ESTIMATED NET EFFECT ON GENERAL REVENUE FUND** | **$0 or (More than $7,000,000)** | **$0 or $1,279,940,518** | **$0 or $1,279,899,551** |
| Estimated net FTE effect on General Revenue Fund | 0 | 2 | 2 |

| FISCAL IMPACT - Local Government | FY 2011 (10 Mo.) | FY 2012 | FY 2013 |
|---|---|---|---|
| | **$0** | **$0** | **$0** |

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

The proposed legislation would revise Missouri individual income tax provisions.

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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