

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3513-01  
Bill No.: HB 1915  
Subject: Revenue Dept.; Tax Credits; Taxation and Revenue - Income  
Type: Original  
Date: March 29, 2010

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Bill Summary: Would create the Missouri Earned Income Tax Credit.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	(\$177,788,268)	(\$177,828,641)	(\$177,838,501)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$177,788,268)</b>	<b>(\$177,828,641)</b>	<b>(\$177,838,501)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<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 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	7	7	7
<b>Total Estimated Net Effect on FTE</b>	<b>7</b>	<b>7</b>	<b>7</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 2011	FY 2012	FY 2013
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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## **FISCAL ANALYSIS**

### **ASSUMPTION**

Officials from the **Office of the Secretary of State (SOS)** stated that 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 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)** assume this proposal would create the Missouri Earned Income Tax Credit Act. Beginning January 1, 2010, a resident individual who is allowed a federal earned income credit would be allowed a refundable Missouri income tax credit equal to 20% of the federal credit. If a couple is married filing separately, the credit can apply to either taxpayer. The program would sunset December 31, six years after the effective date unless re-authorized by the General Assembly. The following would be required of DOR.

- \* File an annual report regarding the credit;
- \* identify and notify taxpayers of their eligibility for the credit;
- \* create rules and regulations to administer the new provisions; and
- \* make forms and instructions changes.

DOR officials stated that 472,678 Missouri taxpayers claimed federal earned income credits totaling \$958,628,158 in 2008. If each of them were allowed a credit equal to their 20% of their federal credit, the total reduction in tax would equal \$191,725,631.

ASSUMPTION (continued)

DOR officials assume that Personal Tax would require four Temporary Tax Employees for key-entry, one FTE Revenue Processing Technician I (Range 10, Step L) for every additional 19,000 returns to be verified, one FTE Revenue Processing Technician I (Range 10, Step L) for every additional 2,400 pieces of correspondence received, two FTE Revenue Processing Technician I (Range 10, Step L) for compliance assurance once the return has been processed, and one FTE Management Analyst Specialist II (Range 25, Step Q) to manage the reporting and contracting requirements.

In addition, DOR officials assume that Collections and Tax Assistance would require one FTE Tax Collections Technician I (Range 10, Step L) for every additional 15,000 contact annually on the delinquency phone line, one FTE Tax Collections Technician I (Range 10, Step L) for every additional 24,000 contact annually on the income tax phone line, and three FTE Revenue Processing Technician I (Range 10, Step L) for every additional 4,800 contacts in the field offices. Customer Assistance anticipates the increase in contacts to be significant enough to request one FTE Tax Processing Technician I for each of the larger field offices, Kansas City, St. Louis, and Springfield.

DOR included an estimate of the cost to implement the proposal including ten additional employees and the related benefits, expense, and equipment totaling \$452,051 for FY 2011, \$487,664 for FY 2012, and \$502,295 for FY 2013.

**Oversight** notes that DOR provided an estimate of the cost to implement a similar proposal in a previous session which included seven additional FTE. Oversight assumes that the compliance assurance process would be performed after the end of the filing season when IRS data becomes available and that some of the employees added for the program would be available for that process. Oversight will include seven additional employees for fiscal note purposes.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employees 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 expense and equipment cost in accordance with OA budget guidelines, and finally, Oversight assumes that a limited number of additional employees could be accommodated in existing office space.

ASSUMPTION (continued)

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

DOR officials also provided an estimate of the IT cost to implement the proposal. DOR officials stated that the IT portion of the fiscal impact is estimated at \$8,904 based on 336 hours of programming to make changes to the individual income tax processing system (MINTS).

**Oversight** assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of normal activity each year, and Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal with existing resources. If unanticipated costs are incurred or if multiple proposals are implemented which increase the OA-ITSD (DOR) workload, resources could be requested through the appropriation process.

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.

The proposal would create a refundable state earned income credit equal to 20% of the federal credit. According to the 2007 IRS Statistics of Income for Missouri, \$942 million in federal earned income credits were claimed by Missouri taxpayers, and 20% of that amount would equal \$188.4 million. The EIC would be adjusted annually for inflation; BAP estimates inflation of 6% between 2007 and 2010. Therefore, for tax year 2010 (FY 2011), the BAP assumes the Missouri earned income credit might reduce general and total state revenues by \$199.7 million.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume this proposal would, if enacted, create the Missouri Earned Income Tax Credit Act. The proposal would authorize an individual income tax credit equal to 20% of the earned income tax credit claimed by the taxpayer on their federal income tax return.

The EPARC simulation of baseline 2008 Missouri individual income tax return information indicated general tax credits of \$180.3 million. The EPARC simulation including the proposed tax credit program indicated that general tax credits increased to \$357.8 million, an increase in tax credits of \$177.5 million. This translates to a reduction in Missouri net general revenue of approximately \$177.5 million.

ASSUMPTION (continued)

**Oversight** will use the EPARC estimate of revenue reduction for fiscal note purposes. Oversight notes that this proposal would be effective for tax years beginning on or after January 1, 2010 and assumes the revenue reduction would begin with 2010 returns filed beginning in January 2011 (FY 2011).

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
<b>GENERAL REVENUE FUND</b>			
<u>Revenue reduction</u> - Earned Income Tax Credit program	<u>(\$177,500,000)</u>	<u>(\$177,500,000)</u>	<u>(\$177,500,000)</u>
<u>Cost</u> - Department of Revenue			
Salaries (7 FTE)	(\$145,650)	(\$180,023)	(\$185,424)
Temporary employees	(\$26,780)	(\$33,100)	(\$34,093)
Benefits	(\$90,422)	(\$111,762)	(\$115,115)
Expense and equipment	<u>(\$25,416)</u>	<u>(\$3,756)</u>	<u>(\$3,869)</u>
Total	<u>(\$288,268)</u>	<u>(\$328,641)</u>	<u>(\$338,501)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$177,788,268)</u></b>	<b><u>(\$177,828,641)</u></b>	<b><u>(\$177,838,501)</u></b>
Estimated Net FTE Effect on General Revenue Fund	7	7	7
<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
	<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.

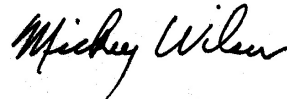
### FISCAL DESCRIPTION

The proposed legislation would create a Missouri Earned Income Tax Credit equal to 20% of the federal earned income tax credit claimed by a taxpayer.

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



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