

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4017-01
Bill No.: HB 1520
Subject: Revenue Dept.; Taxation and Revenue - General; Taxation and Revenue - Income
Type: Original
Date: January 27, 2010

Bill Summary: Would increase the deductions for personal and dependency exemptions.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	\$0	(\$156,100,000)	(\$156,100,000)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$156,100,000)	(\$156,100,000)

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on FTE	0	0	0

☐ 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

Officials from the **Department of Revenue** (DOR) assume this proposal would increase the personal and dependent exemptions for state income tax purposes. Beginning January 1, 2011, a resident would be allowed a deduction of \$2,625 and \$2,625 for the resident's spouse if the resident is entitled to a deduction for such personal exemptions for federal income tax purposes. The dependent exemption would be increased to \$2,100 for each dependent the resident is entitled to for federal income tax purposes.

DOR officials assume that DOR staff and OA-ITSD (DOR) would need to change Missouri Individual Income Tax System (MINITS) and income tax forms. In addition, DOR would need to change withholding tax tables, the withholding tax formula, and the Employer's Tax Guide to reflect the new exemption amounts.

The IT portion of the fiscal impact is estimated by OA-ITSD (DOR) at \$8,882 based on one FTE for a total of 336 hours to make adjustments to the individual income tax processing system (MINITS).

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of normal 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 and Research Center** (EPARC) stated that the proposal, if enacted, would increase the deductions for personal and dependency exemptions. Specifically, it would increase the deduction for personal exemption for individual filers and spouses from two thousand one hundred dollars (\$2,100) to two thousand six hundred twenty-five dollars (\$2,625). As well, this bill would increase the Missouri dependency exemption from one thousand two hundred (\$1,200) dollars to two thousand one hundred (\$2,100) dollars.

EPARC prepared a simulation of the proposal using state income tax data for 2008 returns (FY 2009) and calculated the proposed changes would reduce Missouri personal income tax from the baseline of \$4,982.2 million to \$4,821.6 million, a reduction of \$156.1 million.

ASSUMPTION (continued)

Although they did not respond to our request for information, officials from the **Office of Administration, Division of Budget and Planning** (BAP) assumed a similar proposal in the previous session (HB 545, LR 1377-01, 2009) would not result in additional costs or savings to their organization.

BAP officials stated that the proposal would increase the personal taxpayer exemption from \$2,100 to \$2,625 for all taxable years after January 1, 2010. According to the 2009 Tax Expenditure Report published by the State and Regional Fiscal Studies Unit at the University of Missouri, Columbia, a total of \$396.8 million in personal exemptions were forecast for 2010. This proposal would increase the total taxpayer exemptions by \$99.2 million. $(\$396.8 \text{ million} * (\$2,625 \div \$2,100)) = \496.0 million . $(\$496.0 \text{ million} - \$396.8 \text{ million}) = \99.2 million .

In addition, BAP officials stated that the proposal would increase the personal dependency exemption from \$1,200 to \$2,100 for all taxable years after January 1, 2010. According to the 2009 Tax Expenditure Report published by the State and Regional Fiscal Studies Unit at the University of Missouri, Columbia, a total of \$101.4 million in personal dependency exemptions were forecast for 2010. This proposal would increase the total taxpayer exemptions by \$76.0 million. $(\$101.4 \text{ million} * (\$2,100 \div \$1,200)) = \177.4 million . $(\$177.4 \text{ million} - \$101.4 \text{ million}) = \76.0 million .

The proposal could therefore reduce general and total state revenues by $(\$99.2 \text{ million} + 76.0 \text{ million}) = \175.2 million .

Oversight will use the EPARC projection of revenue reduction, and Oversight assumes the proposal would become effective for 2011 personal income tax returns filed in FY 2012.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE			
<u>Revenue reduction - increased personal and dependency exemptions</u>	<u>\$0</u>	<u>(\$156,100,000)</u>	<u>(\$156,100,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$156,100,000)</u>	<u>(\$156,100,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
	<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

This proposal would increase the deductions for personal and dependency exemptions.

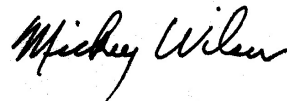
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
University of Missouri
Economic and Policy Analysis Research Center

NOT RESPONDING

Office of Administration
Division of Budget and Planning

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
January 27, 2010