

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4772-01  
Bill No.: HB 2176  
Subject: Federal - State Relations, Taxation and Revenue - General  
Type: Original  
Date: April 21, 2010

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Bill Summary: Would implement a State Authority and Federal Tax Fund Act.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>
General Revenue	(\$4,249,954 to Unknown)	(\$3,723,090 to Unknown)	(\$3,834,784 to Unknown)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$4,249,954 to Unknown)</b>	<b>(\$3,723,090 to Unknown)</b>	<b>(\$3,834,784 to Unknown)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>
<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 10 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
General Revenue	97	97	97
<b>Total Estimated Net Effect on FTE</b>	<b>97</b>	<b>97</b>	<b>97</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 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 State Courts Administrator**, the **Missouri Senate**, the **Office of the Governor**, the **Office of the Lieutenant Governor**, the **Office of the State Treasurer**, the **Office of Administration**, **Administrative Hearing Commission** and **Division of Accounting**, the **Department of Agriculture**, the **Department of Conservation**, the **Department of Economic Development**, the **Department of Health and Senior Services**, the **Department of Insurance**, **Financial Institutions**, and **Professional Registration**, the **Department of Natural Resources**, the **Department of Public Safety**, **Capitol Police**, **Division of Alcohol and Tobacco Control**, **Division of Fire Safety**, **Missouri Veterans Commission**, and **State Emergency Management Agency**, the **Missouri Highway Patrol**, the **State Tax Commission**, the **Missouri Ethics Commission**, the **Missouri Gaming Commission**, the **Missouri Consolidated Health Care Plan**, the **Joint Committee on Administrative Rules**, and the **Office of the State Public Defender** assume this proposal would have no fiscal impact on their organizations.

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 **Missouri House of Representatives** assume this proposal would have either no fiscal impact to their organization or minimal fiscal impact which could be absorbed with existing resources.

Officials from the **Joint Committee on Public Retirement** assume the proposal would not affect retirement plan benefits as defined in current law.

ASSUMPTION (continued)

Officials from the **Department of Corrections** (MDC) assume this proposal could create the potential for the loss of federal funding to their organization. MDC officials indicated an unknown negative fiscal impact for their organization.

Officials from the **Department of Elementary and Secondary Education** (DESE) assume it is not likely that this proposal would have a significant impact on their organization. However, determining what portion of expenditures should be disbursed to the Director of Revenue rather than to the appropriate vendor as is current practice could become an administrative burden.

Officials from the **Department of Higher Education** assume this proposal could affect their organization and all other state agencies that are funded by the General Revenue Fund and with federal funds, but were not able to estimate the extent of the impact at this time.

Officials from the **Department of Labor and Industrial Relations** (DOLIR) stated that the federal and state governments are jointly responsible for administering the unemployment insurance (UI) system. State laws are required to meet certain federal requirements for the state agency to receive the administrative grants used to operate the state UI program, and for employers to qualify for certain tax credits.

DOLIR officials informed us that U.S. Department of Labor (USDOL) officials have informally reviewed the proposed language and advised DOLIR that there is a concern that the proposed language could cause a conformity issue with the Unemployment Fund immediate deposit and withdrawal standards. Non-conformity with federal law could jeopardize the certification of Missouri's UI program and could cause DOLIR to lose \$38 million in federal funds which are used to administer the Missouri UI program.

The Federal Unemployment Tax Act imposes a 6.2% payroll tax on employers, but most employers never actually pay the total 6.2%. Employers receive credits for the state unemployment taxes actually paid, and for the difference between the nominal rate and the actual taxes paid under an approved state experience rating plan. FUTA allows employers to receive tax credits up to a maximum of 5.4% against the FUTA payroll tax if the state UI law is approved by USDOL. The loss of federal certification could cause Missouri employers to lose approximately \$941 million in FUTA credits.

ASSUMPTION (continued)

**Oversight** assumes that the loss of administrative grants and federal employer tax credits would be the result of future state and/or federal action and will not include those potential costs in this fiscal note.

Officials from the **Department of Mental Health** (DMH) stated that this proposal would, if enacted, result in an increase to revenues flowing through the state treasury. It is impossible for DMH to determine the fiscal impact to their organization. Since the legislation deals with federal tax revenues DMH defers to the Office of Administration and the Department of Revenue for determination of the fiscal impact.

Officials from the **Department of Revenue** (DOR) stated that this proposal would create a “State Authority and Federal Tax Fund” Act. The proposal would create a Federal Tax Fund, and DOR would deposit all tax moneys collected by the state on behalf of the federal government into this fund. The proposal would require any person who is liable for federal excise, income or consumer tax to remit this amount to DOR for deposit into the fund. The State Treasurer would disburse those funds collected quarterly, to the appropriate federal recipient.

DOR and OA-ITSD (DOR) would need to create a tracking system to identify all payments received, and would need to make changes to the Taxation Cashiering Transmittal system.

Tax and Customer Service

DOR officials assume that Tax and Customer Assistance would need separate sections to create vouchers, process payments, and to answer correspondence, e-mails, and telephone calls from taxpayers. DOR would also need to develop new forms (vouchers) for taxpayers to identify their federal payments. DOR and OA - ITSD (DOR) would need to create a new processing system to account for all payments and disbursements.

Tax would require two FTE Revenue Manager Band 1, (Range 27, Step R), four FTE Revenue Section Supervisor - (Range 22, Step Q), six FTE Revenue Processing Technician III - (Range 16, Step F), and seventy one (71) Revenue Processing Technician I, (Range 10, Step L).

ASSUMPTION (continued)

Cashiering

In order to process the additional payments, an upgrade would be required to the Cashiering Remittance Processing System. This is estimated to cost \$753,741.

To use the new Remittance Processing System, forms would be required to meet system specifications for ICR/OCR scanning. Taxpayers would be provided a pre-printed voucher form, and DOR assumes there would be an unknown cost for forms development, printing and postage.

**Oversight** will indicate an unknown cost for forms, printing, and postage in this fiscal note.

Additional Cashiering/Processing staff would be needed because the number of taxpayers impacted and frequency of payments will increase. Cashiering would require one FTE Office Support Assistant - Keyboarding (Range 9, Step L), one FTE Revenue Processing Technician I (Range 10, Step L), nine FTE Account Clerk II (Range 12, Step M), and one FTE Accountant I (Range 18, Step M).

DOR submitted an estimate of the cost to implement this proposal including 97 additional employees, and the related equipment purchases and other expenditures totaling \$4,241,222 for FY 2011, \$3,624,107 for FY 2012, and \$3,732,831 for FY 2013.

**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 adjusted the DOR estimate of equipment costs and expenditures in accordance with OA budget guidelines. Finally, based on the current DOR staffing level, Oversight assumes that the 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)

DOR officials also provided an estimate of the IT cost to implement this proposal. The DOR estimate of IT costs was \$160,272, based on 6,048 hours of programming time to make changes to several DOR systems.

**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 **Department of Social Services** (DOS) assume this proposal would not require any specific action on the part of their organization, but it could create a great deal of uncertainty with respect to programs funded jointly by the state and the federal governments since the General Assembly would be given broad power to determine when and if money in the Federal Tax Fund would be disbursed to the federal government.

Officials from the **Department of Transportation** (MODOT) assume that all federal tax money, including all federal reimbursements received for highway purposes, would be deposited into a newly created Federal Tax Fund. The treasurer would have the authority to disburse these funds quarterly to the appropriate recipient. MODOT relies on the timely receipt of our federal funds in order to fund our Statewide Transportation Improvement Program (STIP). Therefore, if the intent is to withhold federal highway funds, MODOT could have a significant negative fiscal impact as we would not be able to pay our contractors in a timely manner. Also, because the money deposited into the fund would be appropriated, there could be a negative impact on our bonding program as it adds appropriation and credit risk for our bondholders.

The fiscal impact is unknown; however, it could be a significant negative fiscal impact, as MODOT receives approximately \$800 million per year in reimbursements from federal sources.

**Oversight** assumes federal reimbursements would be deposited and available for MODOT use as is currently the case. If, however, the collection and transmittal of federal tax collections to the federal government on a delayed (quarterly payment) basis would delay federal payments to Missouri, then MODOT and other agencies could have significant delays in receiving federal funds resulting in increased interest costs. Oversight assumes that those instances would be the result of future state and federal action and will not include such potential costs in this fiscal note.

ASSUMPTION (continued)

**Oversight** notes that this proposal would require the state treasurer to retain federal taxes collected in the event that federal officials deny matching funds or grants, or impose or mandate any other financial sanctions or penalties, or withhold any funds effecting a financial cost to the state. These provisions could, however, result in an unanticipated negative fiscal impact to the state due to other factors affecting federal spending. Oversight assumes that those instances would be the result of future state and federal action and will not include such potential costs in this fiscal note.

**Oversight** also notes that this proposal includes an emergency clause but assumes that the Department of Revenue would need some time to develop the procedures required to implement this proposal. Oversight will indicate ten months' expenditures for FY 2011.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
<b>GENERAL REVENUE FUND</b>			
<u>Cost - Department of Revenue</u>			
Salaries	(\$1,948,370)	(\$2,408,185)	(\$2,480,431)
Benefits	(\$1,021,725)	(\$1,262,852)	(\$1,300,738)
Equipment and expenditures	(\$1,279,859 to <u>Unknown</u> )	(\$52,053 to <u>Unknown</u> )	(\$53,615 to <u>Unknown</u> )
Totals	(\$4,249,954 to <u>Unknown</u> )	(\$3,723,090 to <u>Unknown</u> )	(\$3,834,784 to <u>Unknown</u> )
Cost - Interest due to reimbursement delays	<u>\$0 to</u> (Unknown)	<u>\$0 to</u> (Unknown)	<u>\$0 to</u> (Unknown)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$4,249,954 to</u> <b><u>Unknown</u></b></b>	<b><u>(\$3,723,090 to</u> <b><u>Unknown</u></b></b>	<b><u>(\$3,834,784 to</u> <b><u>Unknown</u></b></b>
Estimated net FTE impact on General Revenue Fund	97	97	97



<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

The proposed legislation would implement a State Authority and Federal Tax Fund Act.

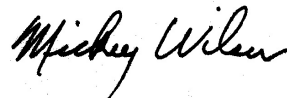
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of State Courts Administrator  
Office of the Governor  
Office of the Lieutenant Governor  
Office of the Secretary of State  
Office of the State Treasurer  
Missouri Senate  
Missouri House of Representatives  
Office of Administration  
    Division of Accounting  
    Administrative Hearing Commission  
Department of Agriculture  
Department of Conservation  
Department of Corrections  
Department of Economic Development  
Department of Elementary and Secondary Education  
Department of Health and Senior Services  
Department of Higher Education

SOURCES (continued)

Department of Insurance, Financial Institutions, and Professional Registration  
Department of Labor and Industrial Relations  
Department of Mental Health  
Department of Natural Resources  
Missouri Highway Patrol  
Department of Public Safety  
    Capitol Police  
    Division of Alcohol and Tobacco Control  
    Division of Fire Safety  
    State Emergency Management Agency  
    Missouri Veterans commission  
Department of Revenue  
Department of Social Services  
State Tax Commission  
Department of Transportation  
Missouri Ethics Commission  
Missouri Gaming Commission  
State Public Defender  
Joint Committee on Administrative Rules  
Joint Committee on Public Retirement  
Missouri Consolidated Health Care Plan



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