

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4189-01
Bill No.: HB 1142
Subject: Taxation and Revenue - General
Type: Original
Date: April 14, 2014

Bill Summary: This proposal would authorize a tax amnesty program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	More than \$20,950,000	\$0	\$0
Total Estimated Net Effect on General Revenue Fund	More than \$20,950,000	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Conservation Commission	Unknown	\$0	\$0
Parks, and Soil and Water	Unknown	\$0	\$0
Other state	Unknown	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	Unknown	\$0	\$0

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
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 2015	FY 2016	FY 2017
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

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.

Officials from the **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would not result in additional costs or savings to their organization.

BAP officials noted the proposal would create an amnesty from all accrued penalties and interest on unpaid taxes, if taxes are appropriately filed and paid during a period from August 1, 2013, to October 30, 2013. This proposal appears to be similar to the amnesty program in FY 2003.

ASSUMPTION (continued)

BAP officials estimated that \$75 million in revenues would be collected, including \$50 million already identified from DOR investigations completed or in process. That \$50 million is part of the revenue base when the consensus revenue estimates are determined for current and future years, and the remaining \$25 million would be "new" revenues from previously unidentified sources. BAP officials also assume 84.2% of those collections would be due to the General Revenue Fund based on the results of the amnesty program in FY 2003. BAP officials also noted their estimates are based on income and sales tax liabilities; a small amount of additional funds may be collected if other taxes such as tobacco taxes, are included in the amnesty.

BAP officials stated the General Revenue Fund portion of collections is composed of general sales tax and income tax revenues, and the 84.2% General Revenue Fund estimate is based on an analysis of the 2003 collections applied to current tax provisions. The balance of collections would be due to the Conservation Commission Fund, the Parks, and Soil and Water Fund, and to other state funds.

Further, BAP officials assume the proposed amnesty would persuade taxpayers to settle accounts in a more timely fashion than is typical. Based on data provided by the Department of Revenue (DOR), BAP officials estimated 27% of liabilities collected are settled within nine months after being identified by the DOR, with others taking up to 36 months or more to settle. BAP officials assume the amnesty would bring all of these payments into the three-month amnesty window. This effect would have an additional positive cash flow impact in FY 2015, at the expense of payments that would have otherwise been received in later years.

ASSUMPTION (continued)

BAP officials assume this proposal would have impacts as shown in the following table.

All funds				
	Total	2015	2016	Later Years
Amnesty collections	75.0	75.0		
Normal collections	(50.0)	(13.6)	(22.8)	(13.6)
Difference	25.0	61.4	(22.8)	(13.6)
General Revenue Fund				
	Total	2015	2016	Later Years
Amnesty collections	63.2	63.2		
Normal collections	(42.1)	(11.4)	(19.2)	(11.5)
Difference	21.1	51.8	(19.2)	(11.5)

In summary, BAP officials assume this proposal would increase General Revenue Fund collections by \$51.8 million in FY 2015, with impacts on Total State Revenues as noted above.

Oversight assumes the Department of Revenue would collect the approximately \$50 million in the reasonably near future with or without an amnesty program; however, Oversight will consider the approximately \$25 million as additional revenue for fiscal note purposes.

Oversight notes this proposal would require all collections, other than constitutionally designated revenues, to be deposited into the General Revenue Fund. Oversight has no information as to the specific other types of taxes that would be collected, or the fund which would receive those collections. Therefore, it would appear that more than 84.2% of the amounts which could be collected in the proposed amnesty program would be deposited into the General Revenue Fund. Accordingly, Oversight will indicate additional revenues for the state General Revenue Fund greater than $(\$25,000,000 \times 84.2\%) = \$21,050,000$ for FY 2015.

Oversight will also indicate unknown additional revenues for the Conservation Commission Fund, the Parks and Soils and Water Fund, and other state funds for FY 2015. Finally, Oversight notes those collections due to other state funds could include distributions to local governments but will not include those distributions in this fiscal note.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** assume this proposal would provide an amnesty from the assessment or payment of penalties, additions to tax, and interest to taxes administered by the Department under chapters 32, 143, 144, and 147 from August 1, 2014 to September 30, 2014. The amnesty would apply to only those tax liabilities due or due but unpaid on or before December 31, 2013. DOR officials noted the proposal has an emergency clause.

Fiscal impact

DOR officials assume this proposal could have a net positive impact on the General Revenue Fund of \$51.8 million based on Total State Revenue in fiscal year 2013 of \$61.4 million. DOR officials estimated that a total of \$75 million (\$63 million to the General Revenue Fund) could be received through amnesty, but a total of \$50 million (\$42 million to the General Revenue Fund) would have been identified as outstanding liabilities by DOR. DOR officials also assume an overwhelming majority of the \$50 million, plus interest and penalties, could be collected without amnesty.

DOR officials noted there are processes and personnel in place to collect delinquent taxes, and the \$50 million is taken into consideration when the consensus revenue estimates are determined.

DOR officials also noted this proposal could have an impact to the Department of Elementary and Secondary Education, the Department of Agriculture, and the Department of Health since the Department of Revenue deposits several of the taxes it collects into funds these agencies administer. Under the plain language of the proposal, all of the taxes collected under the amnesty program would be deposited into the General Revenue Fund. DOR officials noted this proposal could also affect local governments that impose sales or use tax.

Oversight notes this proposal would require DOR to deposit all collections from the amnesty program, except for those which are earmarked by the Missouri Constitution, into the General Revenue Fund.

ASSUMPTION (continued)

Administrative impact

DOR officials noted there are approximately 377,000 known taxpayers eligible for amnesty. The postage, envelopes and printing costs for notification of those filers is calculated as $377,000 \times \$0.555 = \$207,350$.

- * Existing staff working overtime would be used to complete correspondence at a cost of \$78,540.
- * Existing staff working overtime would be used to complete error corrections at a cost of \$57,334.
- * Personal Tax would use temporary employees for processing returns, and temporary employees and existing staff working overtime to process payments.
- * Business Tax would use existing staff working overtime to process returns and payments at a cost of \$113,883.
- * Collections and Tax Assistance would use temporary employees for customer contacts at a cost of \$23,562.

DOR officials also recommended an advertising budget of at least \$400,000; DOR officials assume advertising the amnesty program would enhance overall participation in the program. Advertising could also help ensure that individuals and businesses not already in contact with DOR about their tax liabilities participate in the program.

IT impact

DOR officials provided an estimate of the IT cost to implement this part of the proposal. The DOR estimate of IT cost is \$74,474 for 2,728 hours of programming to make changes to DOR tax systems.

The DOR summary of costs to implement this proposal including employee overtime, benefits, processing, mailing, and advertising totaled \$1,096,475 for FY 2015.

ASSUMPTION (continued)

Oversight assumes the amnesty program would be implemented as part of a broader upgrade of DOR collections and customer service programs, and will indicate unknown costs in excess of \$100,000 in FY 2015 for the Department of Revenue to administer the amnesty program.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE			
<u>Additional revenue</u> - tax amnesty Section 32.383	More than \$21,050,000	\$0	\$0
<u>Cost</u> - DOR Tax amnesty program Section 32.383	(More than <u>\$100,000</u>)	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	More than <u>\$20,950,000</u>	<u>\$0</u>	<u>\$0</u>
CONSERVATION COMMISSION			
<u>Additional revenue</u> - tax amnesty Section 32.383	<u>Unknown</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION	<u>Unknown</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - State Government
(Continued)

FY 2015
(10 Mo.)

FY 2016

FY 2017

**PARKS, AND SOIL AND WATER
FUNDS**

Additional revenue - tax amnesty
Section 32.383

Unknown

\$0

\$0

**ESTIMATED NET EFFECT ON
PARKS, AND SOIL AND WATER**

Unknown

\$0

\$0

OTHER STATE FUNDS

Additional revenue - tax amnesty
Section 32.383

Unknown

\$0

\$0

**ESTIMATED NET EFFECT ON
OTHER STATE FUNDS**

Unknown

\$0

\$0

FISCAL IMPACT - Local Government

FY 2015
(10 Mo.)

FY 2016

FY 2017

\$0

\$0

\$0

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to a small businesses which qualified for the tax amnesty.

FISCAL DESCRIPTION

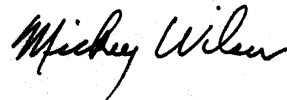
This proposal would authorize an amnesty from the assessment or payment of penalties, additions to tax, and interest on delinquencies of unpaid taxes administered by the Department of Revenue which occurred on or prior to December 31, 2013. A taxpayer would be required to apply for amnesty; pay the unpaid taxes in full between July 1, 2014, and September 30, 2014, and agree to comply with state tax laws for the next eight years from the date of the agreement.

If a taxpayer is granted amnesty, he or she would not be eligible to participate in any future amnesty for the same tax. All tax payments received from the tax amnesty program would be deposited into the General Revenue Fund unless otherwise earmarked by the Missouri Constitution. The proposal includes an emergency clause.

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
Joint Committee on Administrative Rules
Office of Administration
Division of Budget and planning
Department of Revenue



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