

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4400-01
Bill No.: HB 1328
Subject: Taxation and Revenue - Income; Taxation and Revenue - Sales and Use; Tobacco Products; Department of Revenue
Type: Original
Date: February 17, 2014

Bill Summary: This proposal would reduce individual income tax rates on income of \$300,000 or less, impose an 8% tax rate on income above \$300,000, create a low-income tax deduction, and reduce federal income tax liability deductions.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	\$0	(\$77,969)	(\$174,077,210)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$77,969)	(\$174,077,210)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

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 **University of Missouri - Economic and Policy Analysis Research Center (EPARC)** prepared a simulation of the fiscal impact of this proposal using data from the latest 2012 individual income tax data as a baseline. EPARC officials noted that baseline Net Tax Due is equal to \$5,109.439 million. When the proposed changes were added to the simulation, Net Tax Due was reduced to \$4,935.466 million, which would correspond to a reduction in individual income tax revenue of \$173.973 million.

Oversight notes the changes in this proposal would become effective for years beginning on or after January 1, 2016 and assumes the fiscal impact for this proposal would have a fiscal impact beginning in January, 2017 (FY 2017) when income tax returns for 2016 are filed. Oversight will use the EPARC estimate of fiscal impact and indicate a revenue reduction of \$173,973,000 for FY 2017. Oversight assumes some individuals would reduce their estimated payments or withholding in anticipate of a tax reduction; however, for fiscal note purposes, will indicate the full fiscal impact of the proposal in the year when tax returns would be filed.

Although they did not respond to our request for information, officials from the **Department of Revenue (DOR)** assumed provisions in SB 409 (LR 4324-02) would have an impact on their organization.

The DOR response included seven additional employees; with benefits, equipment, and expenses, the DOR estimate of cost to implement the proposal totaled \$354,805 for FY 2015, \$287,253 for FY 2016, and \$290,210.

DOR officials also provided an estimate of the IT cost to implement the individual income tax provisions for SB 409 (LR 4324-02) of \$77,969 based on 2,856 hours of programming to make changes to DOR systems.

ASSUMPTION (continued)

Oversight assumes this proposal could be implemented with four additional employees and 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 and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

Oversight notes the changes to personal income tax provisions would be implemented for 2016 and will include the DOR costs for additional employees beginning January 1, 2017 (FY 2017) when the first tax returns for 2016 would be filed. The adjusted estimate of DOR cost including salaries, benefits, equipment, and expense for FY 2017 is \$104,210 and the adjusted estimate for twelve months in FY 2018 is \$148,453. Oversight assumes the IT cost would be applicable to FY 2016 since DOR systems would need to be updated before FY 2017.

Oversight assumes the DOR estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment could be reduced by roughly \$6,000 per new employee.

Officials from the **Office of Administration - Division of Budget and Planning** did not respond to our request for information.

Bill as a whole responses:

Officials from the **Joint Committee on Administrative Rules** assume there would be no fiscal impact to their organization from this proposal.

ASSUMPTION (continued)

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 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, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS reserves 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.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE FUND			
<u>Cost - DOR</u>			
Salaries	\$0	\$0	(\$47,280)
Benefits	\$0	\$0	(\$24,115)
Equipment and expense	<u>\$0</u>	<u>\$0</u>	<u>(\$32,815)</u>
Total	\$0	\$0	(\$104,210)
Personal income tax changes Sections 143.011, 143.021, 143.149 and 143.171			
FTE change - DOR	0 FTE	0 FTE	4 FTE
<u>Cost - DOR</u>			
IT cost			
Personal income tax changes Sections 143.011, 143.021, 143.149 and 143.171	\$0	(\$77,969)	\$0
<u>Revenue reduction - DOR</u>			
Personal income tax changes Sections 143.011, 143.021, 143.149, and 143.171	<u>\$0</u>	<u>\$0</u>	<u>(\$173,973,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>(\$77,969)</u>	<u>(\$174,077,210)</u>
Estimated Net FTE Effect on General Revenue Fund	0 FTE	0 FTE	4 FTE
 <u>FISCAL IMPACT - Local Government</u>	 FY 2015 (10 Mo.)	 FY 2016	 FY 2017
	<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 change the laws regarding individual income taxation. In its main provisions, the bill would:

- * Modify the individual income tax rate table. Beginning with the 2016 tax year, the tax rate would be 4% for taxable income of \$30,000 or less, 6% plus \$1,200 for taxable income over \$30,000 but not over \$300,000, and 8% plus \$17,400 for taxable income over \$300,000;
- * Create an individual income tax deduction, beginning January 1, 2016. A taxpayer would be allowed to deduct \$2,500 if his or her Missouri adjusted gross income is \$11,000 or less, \$2,000 for income over \$11,000 but not over \$12,000, \$1,500 for income over \$12,000 but not over \$13,000, \$1,000 for income over \$13,000 but not over \$14,000, and \$500 for income over \$14,000 but not over \$15,000; and
- * Reduce the deduction, beginning January 1, 2016, for a taxpayer's federal income tax liability from \$5,000 to \$2,000 for a single taxpayer and from \$10,000 to \$4,000 for married filing combined.

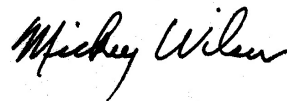
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
University of Missouri
Economic and Policy Analysis Research Center

Not responding:

Office of Administration
Division of Budget and Planning
Department of Revenue



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February 17, 2014

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February 17, 2014