

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4524-01  
Bill No.: HB 1397  
Subject: Taxation and Revenue - Income; Revenue Department  
Type: Original  
Date: March 20, 2014

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Bill Summary: This proposal would create the Missouri Supporting Families Income Tax Holiday Act which would allow an exemption from Missouri withholding taxes for state employees in a specified month to be determined by the Department of Revenue.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	\$0 or (\$5,000,000)	\$0 or (\$5,000,000)	\$0 or (\$5,000,000)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0 or (\$5,000,000)</b>	<b>\$0 or (\$5,000,000)</b>	<b>\$0 or (\$5,000,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
<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 8 pages.

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</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 2015	FY 2016	FY 2017
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## **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 **Office of Administration - Division of Accounting (COA)** assume this proposal would have no fiscal impact on their organization.

### **Fiscal impact**

COA provided information on the monthly Missouri withholding tax amounts from state employees for the past three years, and assumed this proposal would result in the delayed collection of approximately \$5 million in revenues although there would be no net impact on the General Revenue Fund since the employee's tax liability would not be changed.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would exempt "all employees of this state" from the withholding tax requirements for one month each year. BAP officials also assume the phrase "all employees of this state" means "state employees".

BAP officials stated that based on General Revenue Fund withholding receipts statewide, April, July, or October could be the smallest month, and might be the month exempted. BAP officials also stated they do not know if that observed trend would apply to "state employees".

ASSUMPTION (continued)

BAP officials also assume even though an employee is exempt for withholding tax for one month, their ultimate tax liability remains the same. The overall cash impact to employee would be neutral since this proposal would reduce the tax refund the employee would otherwise receive, or would increase their tax remittance.

Similarly, BAP officials assume there would be no aggregate cash impact to the state. However, if the month chosen for the exemption was April (or any of the first six calendar months), Total State Revenues would be reduced, and would be increased by the same amount the following spring as taxes are settled.

Officials from the **Department of Revenue (DOR)** assume this proposal would require the Department to determine the month when collections are the lowest. Beginning January 1, 2015, the proposal would exempt state employees from withholding tax for that month.

Fiscal impact

DOR officials did not provide an estimate of the fiscal impact of this proposal.

Administrative impact

DOR officials assume Withholding Tax would need to make changes to the withholding tax system to determine the lowest month withholding tax was paid by state employers. Also, changes would be needed to identify withholding accounts which would not be required to file a return for that month.

DOR officials assume Collections and Tax Assistance (CATA) would require two additional Tax Collection Technicians I for additional contacts on the delinquent and non-delinquent tax lines, and one (1) Revenue Processing Technician I for contacts annually to the field offices. Each additional technician would require CARES equipment and license.

DOR officials provided an estimate of the administrative cost to implement this proposal including three additional employees and the related benefits, equipment, and expense. The DOR estimate totaled \$121,194 for FY 2015, \$124,065 for FY 2016, and \$125,354 for FY 2017.

ASSUMPTION (continued)

**Oversight** assumes this proposal would simply reduce withholding taxes for state employees, which would be reflected in reduced refunds or increased balances due when those employees file their income tax returns, beginning the following January. Oversight assumes the proposal could result in a minimal additional workload for DOR employees which could be absorbed with existing resources. If unanticipated additional costs are incurred or if multiple proposals are implemented which increase the DOR workload, resources could be requested through the budget process.

IT impact

DOR officials assume their organization would require 120 hours of programming at a cost of \$3,276 to make changes to withholding tax programs.

**Oversight** assumes OA - ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight also assumes OA - ITSD (DOR) could absorb the costs related to this proposal. If multiple proposals are implemented which increase their workload, OA - ITSD (DOR) could request funding through the budget process.

Oversight assumptions

**Oversight** notes this proposal would exempt state employees from Missouri withholding tax for one month each year, to be determined by DOR.

**Oversight** reviewed the withholding tax information provided by the Office of Administration and noted the lowest amounts were \$5,054,872 in April, 2011, \$4,930,959 in April, 2012, and \$4,980,310 in July, 2013. Based on this information Oversight assumes, depending on the month in which the exemption is applied, there could be a reduction in revenue for fiscal note purposes. That exemption could reduce revenues in one fiscal year, but any such reduction would be offset by reduced refunds or increased balances due from state employees in the next fiscal year.

ASSUMPTION (continued)

For example, **Oversight** states that if the exemption is applied to April state employee payrolls, there would be less withheld in FY 2015 which would then affect 2015 returns filed in January 2016 (FY 2016). If the Department of Revenue could implement the proposal based on a long-term observation of withholding tax information and apply the exemption to April of each subsequent year, the FY 2015 revenue reduction would be permanent but after FY 2015, the revenue reduction would be offset by the reduction in refunds/increase in balances due for the previous year.

If the Department of Revenue applied the exemption to July, however, there would be no net fiscal impact since the revenue reduction from the withholding tax exemption and the offsetting revenue increase from reduced refunds and increased balances due would occur in the same fiscal year.

**Oversight** does not have information as to the long-term trend in withholding tax from state employees, and can not determine which month would have the lowest amount withheld. Based on the information we were provided by the Office of Administration, Oversight will assume the exemption would be approximately \$5 million. The fiscal impact will be indicated as \$0 or \$5 million for FY 2015, FY 2016, and FY 2017.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
<b>GENERAL REVENUE FUND</b>			
<u>Revenue reduction - DOR</u>			
Withholding tax exemption	\$0 or	\$0 or	\$0 or
Section 143.266	<u>(\$5,000,000)</u>	<u>(\$5,000,000)</u>	<u>(\$5,000,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b>\$0 or <u>(\$5,000,000)</u></b>	<b>\$0 or <u>(\$5,000,000)</u></b>	<b>\$0 or <u>(\$5,000,000)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
	<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.

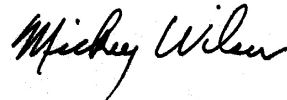
FISCAL DESCRIPTION

This proposal would allow an exemption from Missouri withholding taxes for state employees in a specified month to be determined by the Department of Revenue.

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 Accounting  
    Division of Budget and Planning  
Department of Revenue

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

Mickey Wilson, CPA  
Director  
March 20, 2014

Ross Strope  
Assistant Director  
March 20, 2014