

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4599-01
Bill No.: HB 1174
Subject: Banks and Financial Institutions
Type: Original
Date: January 27, 2014

Bill Summary: This proposal would make gains from the exchange of gold and silver deductible from Missouri adjusted gross income, and would establish definitions and rules for nonbank depositories.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|------------------|------------------|------------------|
| FUND AFFECTED | FY 2015 | FY 2016 | FY 2017 |
| General Revenue | (Unknown) | (Unknown) | (Unknown) |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | (Unknown) | (Unknown) | (Unknown) |

| 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 10 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

Section 143.111, RSMo. - Deduction from Missouri Adjusted Gross Income for Gains on Sale of Gold and Silver

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

BAP officials stated this proposal would exempt certain capital gains income from the exchange of gold and silver from Missouri adjusted gross income. BAP officials stated income taxes on capital gains could be between \$100 million to \$200 million or more, in any given fiscal year, but it is difficult to determine what portion of that may be due to the exchange of gold or silver.

BAP officials also assumed this proposal would impact the calculation under Article X, Section 18(e).

Officials from the **Department of Revenue** assume this provision would allow for a deduction from Missouri adjusted gross income for capital gains from the exchange of gold or silver.

Fiscal impact

DOR officials stated they can not determine the amount of capital gains earned from the exchange of silver and gold, and assume the deduction for capital gains income from the exchange of gold and silver could result in a negative impact on Total State Revenue from \$0 to \$200 million.

DOR officials did not indicate any administrative cost for this provision, and **Oversight** assumes any DOR costs could be absorbed with existing resources.

IT impact

DOR officials provided an estimate of the IT cost for OA - ITSD (DOR) to implement this proposal of \$13,759 based on 504 hours of programming to make changes to DOR systems.

ASSUMPTION (continued)

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 **University of Missouri, Economic and Policy Analysis Research Center (EPARC)** assume this proposal, if enacted, would make gains from the exchange of gold and silver deductible from Missouri adjusted gross income, and would establish definitions and rules for nonbank depositories.

EPARC official noted the current prices of gold and silver are our best indicator of the future price of gold and silver; therefore, we cannot anticipate any future capital gain in these markets.

Officials from **Department of Social Services** assume this provision relates to taxable income and would have no impact on the Department's child support program.

Oversight notes this proposal would exempt any gain on the sale of gold and silver coins from state income taxes, and assumes this would cause a reduction in revenues for the state General Revenue Fund. Oversight does not have any information as to the number or amounts of such transactions in the state and will indicate an unknown revenue reduction for fiscal note purposes.

Section 408.010, RSMo. - Nonbank depositories

Officials from the **Office of the Secretary of State - Securities Division** assume this proposal would require their organization to create and implement an entirely new regulatory structure for a to-be-determined and currently unregulated component of the financial services industry.

Securities Division officials assume the Missouri Securities Division would need to add, at a minimum, five new staff members and create and implement a new electronic registration system. The estimated cost for these additions would amount to, at a minimum, approximately \$370,000 per year in new General Revenue Fund expenses.

Administrative impact

The SOS response included costs for five additional employees and related equipment and expense totaling \$359,698 for FY 2015, \$364,723 for FY 2016, and \$368,346 for FY 2017.

ASSUMPTION (continued)

Oversight does not have any information regarding the number or size of businesses which could be involved in the nonbank depositories which would be created if this proposal was enacted. Further, Oversight assumes that initially, only a limited number of such businesses would be in operation. Accordingly, Oversight will include an unknown cost for the Office of the Secretary of State for staff, equipment, and expense to regulate the newly created businesses.

Oversight also assumes the Office of the Secretary of State would implement registration and other fees to support the cost of regulating the new businesses. Oversight assumes the General Revenue Fund would receive sufficient revenue from these fees to support the cost of regulating the businesses after the first few years of operation. For fiscal note purposes, Oversight will assume those revenues would be unknown but less than the cost of developing and operating the registration and regulation system for those businesses for FY 2015, FY 2016, and FY 2017.

IT impact

The SOS response indicated there would be a cost for OA - ITSD (SOS) for new software and installation for the new registration system. SOS officials provided an estimate of \$37,500 for the software and installation and \$2,500 per year for maintenance, but stated they had not been not able to review that estimate with OA - ITSD (SOS).

Oversight will include an unknown cost in this fiscal note for OA - ITSD (SOS) to develop and implement the new registration system in FY 2015. Oversight assumes the cost to maintain the system would be nominal and could be absorbed with existing resources.

Officials from the **Department of Revenue** did not indicate a direct fiscal impact from this provision but assume the provision would conflict with existing statutory garnishment procedures.

Fiscal impact

If this provision was determined to govern garnishments, DOR officials assume Total State Revenue could be reduced by more than \$6.5 million annually.

ASSUMPTION (continued)

Administrative impact

DOR officials provided an estimate of the cost to implement this proposal, assuming this provision would conflict with existing provisions on garnishments. The total DOR cost estimate including six additional employees and related equipment and expenditures totaled \$199,206 for FY 2015, \$241,437 for FY 2016, and \$243,852 for FY 2017.

Oversight assumes this provision would be implemented in a way that preserves existing legal provisions on garnishments and will indicate no fiscal impact for the prospective loss of revenue or for additional DOR employees.

Officials from **Department of Social Services (DOSS)** noted this provision relates to nonbank depositories and, more generally, adds new restrictions and requirements for disclosure, search, and seizure of a person's monetary holdings.

DOSS officials assume the language in this provision could conflict with the Department's authority for expedited processes to identify and seize financial assets to collect delinquent child support and note federal law mandates that state child support agencies conduct automated data matches with financial institutions to identify and collect delinquent support.

DOSS officials stated if these provisions supersede the Department's authority, this bill could inhibit and increase the cost of efforts to identify and seize assets. Instead of using existing administrative processes, the Department would require the services of the Missouri Attorney General's Office and the courts in order to comply with disclosure, search and seizure requirements in this bill.

DOSS officials noted this proposal could cause the state's Title IV-D support collection enforcement program to be noncompliant with federal requirements. That noncompliance could result in the loss of federal funding for the child support program of \$59.2 million for Federal FY 2013. DOSS officials also stated that an approved Title IV-D Plan is a condition of eligibility for a TANF block grant under Title IV-A of the Social Security Act, so IV-D noncompliance could also affect Missouri's TANF funding of \$217 million.

Oversight assumes the proposal would be implemented in a way that allows DOSS programs to meet federal requirements, and will indicate no impact for the loss of potential federal program support.

ASSUMPTION (continued)

Officials from the **Department of Labor and Industrial Relations (DOLIR)** assume this proposal would severely hinder the ability of the Division of Employment Security (DES) to identify and collect delinquent employer taxes, to prosecute individuals who have committed unemployment insurance (UI) fraud, and to collect overpaid UI benefits.

DOLIR officials stated DES currently issues administrative subpoenas to identify assets (monetary holdings), including bank accounts, for potential garnishment. DES issues administrative subpoenas to compel employers to comply with requests for financial information for mandatory audits. DES issues subpoenas for bank records and employee wage records for individuals who are accused of committing unemployment insurance fraud. DES issues wage information letters to employers that are reporting wages for individuals the DES has determined to have erroneously received UI benefits.

DOLIR officials assume implementing this proposal could require additional staff to maintain collections, or the state's Unemployment Insurance Trust Fund, which is used to pay unemployment benefits, could experience a reduction of at least \$800,000, because this proposal would significantly impede the ability of the DES to collect delinquent taxes and unemployment insurance overpayments.

Oversight assumes this provision would be implemented in a way that preserves existing provisions on asset identification and garnishments and will indicate no fiscal impact for the prospective loss of revenue or for additional DOLIR employees.

ASSUMPTION (continued)

Bill as a whole responses

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 **Office of the Attorney General** assume that any potential costs arising from this proposal could be absorbed with existing resources.

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 State Courts Administrator, the Department of Higher Education, the Department of Insurance, Financial Institutions, and Professional Registration**, and the **Missouri Highway Patrol** assume this proposal would have no fiscal impact their organizations.

| <u>FISCAL IMPACT - State Government</u> | FY 2015 (10 Mo.) | FY 2016 | FY 2017 |
|---|-------------------------|-------------------------|-------------------------|
| GENERAL REVENUE FUND | | | |
| <u>Revenue reduction</u> - DOR | | | |
| Income tax exemption for gain on sale of gold and silver coins. | | | |
| Section 143.111 | (Unknown) | (Unknown) | (Unknown) |
| <u>Revenue</u> - SOS | | | |
| Nonbank depository regulation | | | |
| Registration and other fees | Unknown | Unknown | Unknown |
| <u>Cost</u> - SOS | | | |
| Nonbank depository business regulation. | | | |
| Section 408.010 | | | |
| Salaries, benefits, equipment, and expense | (Unknown) | (Unknown) | (Unknown) |
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | <u>(Unknown)</u> | <u>(Unknown)</u> | <u>(Unknown)</u> |
| <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

This proposal could have a direct fiscal impact on a small business involved in buying, selling, or storing gold and silver.

FISCAL DESCRIPTION

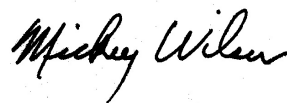
This proposal would exempt gains on the sale of gold and silver coins from state income tax, and would provide for the storage of gold and silver coins in private repositories.

FISCAL DESCRIPTION (continued)

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
Office of the Attorney General
Joint Committee on Administrative Rules
Office of State Courts Administrator
Office of Administration
 Division of Budget and Planning
Department of Higher Education
Department of Insurance, Financial Institutions, and Professional Registration
Department of Labor and Industrial Relations
Missouri Highway Patrol
Department of Revenue
Department of Social Services
University of Missouri
 Economic and Policy Analysis Research Center



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