

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4638-03
Bill No.: HB 1269
Subject: Taxation and Revenue - Income
Type: Original
Date: February 10, 2014

Bill Summary: This proposal would change the individual income tax rates to consider the poverty line.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	\$0	(\$1,141,449,200)	(\$1,141,479,339)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$1,141,449,200)	(\$1,141,479,339)

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
General Revenue	0 FTE	3 FTE	3 FTE
Total Estimated Net Effect on FTE	0 FTE	3 FTE	3 FTE

☐ 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 143.011, RSMo. - Individual Income Tax Rates:

Changes to this section would, effective January 1, 2015, provide a tax rate of 0% on taxable income below 106% of the poverty line. The tax rate for taxable income above 106% of the poverty line would be 6%.

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

BAP officials used 2011 tax data to estimate the revenue impact of this proposal, and assumes the federal poverty guidelines for Tax Year 2011 as published by the United States Department of Health and Human Services would apply; however, BAP officials noted the United States Department of Commerce, Census Bureau also publishes poverty thresholds which differ slightly.

Further, BAP officials note that differing poverty guidelines are provided based on "family" size and cannot determine how this might relate to taxpayers and their households, but noted the applicable guideline is likely different for each taxpayer.

ASSUMPTION (continued)

2011 Poverty Guidelines	
Family size	48 Contiguous states and District of Columbia
1	\$10,890
2	\$14,710
3	\$18,530
4	\$22,530
5	\$26,170
6	\$29,990
7	\$33,810
8	\$37,630
Add for each additional family member	\$3,820

BAP officials estimated the losses to Total State Revenues from \$1.1 billion to \$3.0 billion as shown below, depending on which poverty guideline might be applicable, and also notes that taxable income may have little correlation with the poverty guidelines, especially for nonresident filers with a moderate amount of Missouri source income.

ASSUMPTION (continued)

Family size	Income Guideline	Estimated Revenue Reduction
1	\$10,890	\$1,080,742,564
2	\$14,710	\$1,518,062,121
3	\$18,530	\$1,884,790,707
4	\$22,350	\$2,188,356,937
5	\$26,170	\$2,436,841,735
6	\$29,990	\$2,641,587,180
7	\$33,810	\$2,811,256,043
8	\$37,630	\$2,956,342,335

Finally, BAP officials noted this proposal does not change the current statutory requirement that combined filers calculate income tax separately on their own taxable income. It follows that each taxpayer could individually pay taxes on whichever guideline might be applicable, essentially doubling the exemption.

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

Officials from **the University of Missouri, Economic and Policy Analysis Research Center (EPARC)** assume this proposal would, if enacted, change the individual income tax rates to consider the poverty line. Specifically, in 2015 the rate of tax on taxable income at or below one hundred and six percent of the official poverty line would be 0% and the rate of tax on taxable income above one hundred and six percent of the official poverty line would be 6%.

EPARC officials noted the official poverty guidelines 2013 published by the U.S. Department of Health and Human Services provide the following table for the 48 contiguous states and the District of Columbia:

ASSUMPTION (continued)

Number of family members	Household Poverty Guideline
1	\$11,490
2	\$15,510
3	\$19,530
4	\$23,550
5	\$27,570
6	\$31,590
7	\$35,610
8	\$39,630
Each additional person	Add \$4,020

EPARC officials noted the “poverty guideline” is a simplification of the poverty thresholds used for administrative purposes – for instance, determining financial eligibility for certain federal programs; however EPARC officials used these poverty guidelines to determine their estimate of fiscal impact. Based on the filing status and number of dependents, EPARC officials estimated the taxable income level at which each Missouri filer would begin paying the 6% rate.

EPARC officials noted the baseline simulation using existing provisions and the most recent individual income tax data for 2012 was an estimated Net Tax Due of \$5,109.439 million. When EPARC officials used the household size and poverty line for each filer from the table above, the simulation was an estimated Net Tax Due of \$3,968.071 million, a reduction of \$1,141.368 million.

Summary: If enacted, EPARC officials assume this proposal would reduce Total State Revenue by \$1,141.368 million for 2015.

ASSUMPTION (continued)

Oversight notes this proposal would change Missouri income tax provisions for 2015 and assumes the fiscal impact would begin in January 2016 (FY 2016) when individual income tax returns for 2015 would be filed. Oversight will use the EPARC simulation of fiscal impact for 2015 and 2016. Oversight assumes the federal poverty guidelines could change from 2015 to 2016 but is not able to estimate the amount by which those guidelines could change.

Officials from the **Department of Revenue (DOR)** assume that reducing the tax rate to zero percent on all income below the official poverty line and taxing all other income at a tax rate of 6 percent would result in reductions in individual income tax revenues between \$1.081 billion and \$2.956 billion.

Administrative impact

DOR officials assume Personal Tax would require IT programming support for the MINITS system and form changes. Collections and Tax Assistance (CATA) would have additional customer contacts regarding the new tax rates and due to additional adjustment notices. DOR officials assume CATA would require two additional Tax Collection Technicians I's for contacts on the delinquent and non-delinquent tax lines and one additional Revenue Processing Technician I for contacts to the field offices. Each technician would require CARES equipment and license. In addition, Withholding Tax would require update to the withholding tables, forms, and the online calculator.

The DOR estimate of cost to implement this proposal included three additional employees; with benefits, equipment, and expense the DOR estimate totaled \$121,194 for FY 2015, \$124,065 for FY 2016, and \$124,354 for 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.

ASSUMPTION (continued)

Oversight assumes the additional DOR employees would be required beginning January 2016 (FY 2016) when tax returns for 2015 would be filed and will include DOR costs for six months in FY 2016. Oversight 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.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$13,759 based on 504 hours of programming to make changes to DOR individual tax 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. did not respond to our request for information.

Officials from the **Joint Committee on Administrative Rules** assume the proposal would have no fiscal impact their organization.

<u>FISCAL IMPACT - State Government</u>	FY 2015	FY 2016 (6 mo)	FY 2017
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GENERAL REVENUE FUND

Cost - DOR

Individual income tax rates

Section 143.011

Salaries	\$0	(\$35,460)	(\$71,629)
Benefits	\$0	(\$18,086)	(\$36,534)
Equipment and expense	<u>\$0</u>	<u>(\$27,654)</u>	<u>(\$3,176)</u>
Total	\$0	(\$81,200)	(\$111,339)
FTE change - DOR	0 FTE	3 FTE	3 FTE

Revenue reduction - DOR

Individual income tax rates

Section 143.011

<u>\$0</u>	<u>(\$1,141,368,000)</u>	<u>(\$1,141,368,000)</u>
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**ESTIMATED NET EFFECT ON
GENERAL REVENUE FUND**

<u>\$0</u>	<u>(\$1,141,449,200)</u>	<u>(\$1,141,479,339)</u>
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Estimated Net FTE Effect on General
Revenue Fund

0 FTE	3 FTE	3 FTE
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FISCAL IMPACT - Local Government

FY 2015 (10 Mo.)	FY 2016	FY 2017
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<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

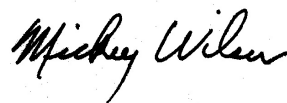
FISCAL DESCRIPTION

This proposal would change the individual income tax rates to consider the poverty line.

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
University of Missouri
 Economic and Policy Analysis Research Center



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February 10, 2014

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