COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4646-01
Bill No.: HB 1120
Subject: Elderly; Taxation and Revenue - Property; Tax Credits; Counties
Type: Original
Date: February 3, 2014

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Bill Summary: Establishes the Missouri Earned Income Tax Credit Act authorizing an individual income tax credit equal to 20% of any earned income tax credit claimed on the taxpayer's federal income tax return.

## FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2015 | FY 2016 | FY 2017 |
| General Revenue | ($213,999,301) | ($214,074,035) | ($214,077,054) |
| | | | |
| **Total Estimated Net Effect on General Revenue Fund** | **($213,999,301)** | **($214,074,035)** | **($214,077,054)** |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2015 | FY 2016 | FY 2017 |
| | | | |
| | | | |
| **Total Estimated Net Effect on Other State Funds** | **$0** | **$0** | **$0** |

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2015 | FY 2016 | FY 2017 |
| | | | |
| | | | |
| **Total Estimated Net Effect on All Federal Funds** | **$0** | **$0** | **$0** |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2015 | FY 2016 | FY 2017 |
| General Revenue | 7 FTE | 7 FTE | 7 FTE |
| | | | |
| **Total Estimated Net Effect on FTE** | **7 FTE** | **7 FTE** | **7 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 135.760, RSMo - Missouri Earned Income Tax Credit:

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 that 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 any additional costs or savings to their organization.

BAP officials assume this proposal would provide a refundable Earned Income Tax Credit (EITC) to resident taxpayers equal to 20% of the federal EITC.

BAP officials provided information from the federal Internal Revenue Service (IRS) IRS Statistics of Income website for Tax Year 2011, that $1.197 billion in federal EITC was claimed by Missouri filers. BAP officials assume this implies that a 20% refundable credit would reduce Total State Revenues by $239.4 million.

BAP officials also cited a recent study by the Center on Budget and Policy Priorities (CBPP) which included an estimate that a 20% EITC would reduce Total State Revenues by $228 million.

BAP officials assume the Department of Revenue may have more precise information that is specific to Missouri taxpayers.

ASSUMPTION (continued)

Finally, BAP officials assume this proposal would reduce tax revenues beginning in FY 2015 and this proposal could impact the calculation under Article X, Section 18(e).

Officials from the **Department of Revenue (DOR)** assume this proposal would provide a credit against taxes due under chapter 143 for a resident taxpayer that is allowed a federal earned income tax credit, equal to 20 percent of the federal credit.

Fiscal impact

The earned income credits proposed create an estimated negative impact of $238 million each year the credit is authorized.

Administrative impact

DOR officials assume Personal Tax would require four additional Temporary Tax Employees for key-entry, two additional Revenue Processing Technicians I for verification and correspondence, two additional Revenue Processing Technicians I for compliance assurance once the return has been processed, and one Management Analyst Specialist II to manage the reporting and contracting requirements. In addition, Collections and Tax Assistance (CATA) would require two Tax Collections Technicians I on the delinquent and income tax phone lines and three additional Revenue Processing Technicians I for additional contacts to field offices. Due to the anticipated increase in contacts at the larger field offices, CATA would require one at Kansas City, St. Louis, and Springfield.

DOR officials assume all additional permanent employees would require CARES phone systems.

The DOR estimate of cost to implement this proposal included four additional temporary tax employees and ten additional permanent employees. The total DOR estimated cost for the personnel and related equipment and expense was $456,012 for FY 2015, $477,948 for FY 2016, and $482,902 for FY 2016.

**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** notes that DOR provided an estimate of the cost to implement a similar proposal in a previous session which included seven additional FTE. Oversight assumes that the compliance assurance process would be performed after the end of the filing season when IRS data becomes available and that some of the employees added for the program would be available for that process. Oversight will include seven additional employees for fiscal note purposes.

**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 impact for this proposal of $27,518 based on 1,008 hours of programming to make changes to DOR 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.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center (EPARC)** assume this proposal would, if enacted, create the Missouri Earned Income Tax Credit Act. The Act would authorize an individual income tax credit equal to 20% of any earned income tax credit claimed on the taxpayer's federal income tax return.

EPARC officials noted their simulation for Missouri individual income tax for Missouri (2012) indicated a baseline General Tax Credits total of $160.216 million. If the aforementioned tax credit is implemented, the simulation indicated that the General Tax Credits total would increase to $373.999 million, an increase in the General Tax Credits total of $213.783 million. EPARC officials noted this would translate as a decrease in revenue of approximately $213.783 million.

ASSUMPTION (continued)

EPARC officials also stated $51.705 million of the revenue would be represented by a decrease in Net Tax Due from the baseline $5,109.439 million to the simulated $5,057.734 million. The remaining $162.078 million would be refunded to taxpayers.

**Oversight** will use the EPARC estimate of revenue reduction for this proposal for fiscal note purposes for FY 2015, FY 2106, and FY 2017. Oversight notes the revenue reduction may be larger or smaller in FY 2016 and FY 2017 but will use the same EPARC estimate for all three years.

Effective date

**Oversight** notes this proposal would be effective beginning January 1, 2014 and assumes DOR costs would begin in January, 2015 when tax returns for 2014 are first filed. Revenue reductions will be included for FY 2015 in the amount calculated by EPARC. Oversight recognizes individuals may reduce their withholding or estimated tax payments in 2014 in anticipation of a tax reduction, but for fiscal note purposes will include the revenue reduction in the fiscal year the tax returns are filed.

| FISCAL IMPACT - State Government | FY 2015 (6 Mo.) | FY 2016 | FY 2017 |
|---|---|---|---|
| **GENERAL REVENUE FUND** | | | |
| Cost - Department of Revenue | | | |
| Salaries | ($82,740) | ($165,480) | ($167,135) |
| Temporary employees | ($26,000) | ($31,512) | ($31,827) |
| Benefits | ($43,395) | ($86,814) | ($87,682) |
| Equipment and expense | ($64,166) | ($7,229) | ($7,410) |
| Total cost - Department of Revenue | ($216,301) | ($291,035) | ($294,054) |
| FTE change - DOR | 7 FTE | 7 FTE | 7 FTE |
| Revenue reduction - DOR Missouri Earned Income Tax Credit Section 135.760 | ($213,783,000) | ($213,783,000) | ($213,783,000) |
| **ESTIMATED NET EFFECT ON GENERAL REVENUE FUND** | **($213,999,301)** | **($214,074,035)** | **($214,077,054)** |
| Estimated FTE effect on General Revenue Fund | 7 FTE | 7 FTE | 7 FTE |

| FISCAL IMPACT - Local Government | FY 2015 (6 Mo.) | FY 2016 | FY 2017 |
|---|---|---|---|
| | **$0** | **$0** | **$0** |

FISCAL IMPACT - Small Business

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

SAS:LR:OD

FISCAL DESCRIPTION

The proposed legislation would create the Missouri Earned Income Tax Credit Act and authorize, beginning January 1, 2014, an individual income tax credit equal to 20% of any earned income tax credit claimed by the taxpayer on his or her federal income tax return. Any credit that exceeds the taxpayer's liability in a tax year would be refunded to the taxpayer.

The Department of Revenue would be required to notify taxpayers who may qualify for the credit and would also be required to contract with one or more nonprofit groups to contact non-English speaking individuals, elderly residents, tenants, and very low-income individuals who do not file tax returns to notify them of the credit.

The Department would also be required to prepare an annual report including the number of credits issued and claimed, the total amount of revenue expended, and the average value of the credits issued within certain income ranges.

The provisions would expire December 31 six years after the effective date.

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

SAS:LR:OD

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

Mickey Wilson, CPA
Director
February 3, 2014

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February 3, 2014

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