COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5133-01
Bill No.: SB 687
Subject: Tax Credits; Taxation and Revenue - Income
Type: Original
Date: March 26, 2014

Bill Summary: This proposal would authorize a state earned income tax credit.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	($213,783,000)	($213,783,000)	($213,783,000)
Total Estimated Net Effect on General Revenue Fund	**($213,783,000)**	**($213,783,000)**	**($213,783,000)**

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 8 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
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 **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 have statewide impact, and would impact the calculation required under Article X, Section 18(e).

BAP officials noted this proposal would provide a refundable Earned Income Tax Credit (EITC) to resident taxpayers in an amount equal to 20% of the federal EITC. BAP officials noted that according to the IRS Statistics of Income tables, $1.197 billion in federal EITCs was claimed by MO taxpayers in 2011. BAP officials assume that implies a 20% refundable credit would reduce Total State Revenues by $239.4 million.

BAP officials also cited a recent study by the Center for Budget and Policy Priorities which included an estimate that a 20% Missouri EITC would reduce Total State Revenues by $228 million. BAP officials assume the Department of Revenue may have more precise information specific to Missouri taxpayers.

BAP officials also noted because this proposal would apply to tax years beginning January 1, 2014, 1/1/14, the proposal would reduce tax revenues beginning in FY 2015.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** assume this proposal would create a Missouri Earned Income Tax Credit Act. Beginning January 1, 2014, individuals allowed a federal earned income tax credit would also be allowed a credit against state individual income taxes equal to 20 percent of the federal credit.

DOR officials noted in 2011, 533,637 Missouri taxpayers claimed federal earned income credits totaling $1,188,654,628. If each taxpayer received a credit equal to 20 percent of the federal credit, the total reduction in tax would be $237,730,926 in the first year the credit is authorized.

DOR officials also noted the proposal would require the Department to prepare an annual statistical report regarding the tax credits issued. The Department would also be required to contract with one or more nonprofit groups to provide notice of the credit to eligible taxpayers.

Administrative Impact

DOR officials assume Personal Tax would require four additional (4) Temporary Tax Employees for key-entry, four (4) Revenue Processing Technicians I for verification of returns, correspondence and compliance assurance once the return has been processed, and one (1) Management Analyst Specialist II to manage reporting and contract requirements. DOR officials also assume Collections and Tax Assistance (CATA) would require two (2) additional Tax Collections Technician I for contacts on the delinquency and income tax phone lines. In addition, CATA would require three (3) additional Revenue Processing Technicians I for additional contacts to field offices. Due to the anticipated increase in contacts at the larger field offices, Collections and Tax Assistance would requires one additional employee at Kansas City, St. Louis, and Springfield. All Technicians would require CARES phone systems.

DOR officials provided an estimate of the cost to implement this proposal including ten additional employees. The estimate, including employees, benefits, equipment, and expense, totaled $475,438 for FY 215, $493,763 for FY 2016, and $498,871 for FY 2017.

ASSUMPTION (continued)

Oversight notes this proposal would implement a state tax earned income tax credit program based on and dependent on the federal tax credit program. Oversight assumes this proposal would change a limited number of computations on individual income tax returns and would not be expected to have an impact on the number of returns filed. Oversight notes a significantly high percentage of income tax returns are prepared online, electronically, or by paid preparers.

Oversight assumes there would not be a significant number of additional errors resulting from the changes in this proposal; and therefore assumes existing DOR staffing would be adequate to implement this proposal. If unanticipated additional costs are incurred or if multiple proposals are implemented that increase DOR costs or the workload for DOR employees, resources could be requested through the budget process.

IT impact

DOR officials provided an estimate of the IT portion to implement 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, authorizing an individual income tax credit equal to 20% of any earned income tax credit claimed by the taxpayer on the federal income tax return.

EPARC officials provided a baseline simulation using the most recent Missouri individual income tax data for 2012 and stated that the General Tax Credits Amount was $160.216 million. EPARC officials noted if the Earned Income Tax Credit in included the General Tax Credits Amount would increase to $373.999 million, a difference of $213.783 million.

ASSUMPTION (continued)

EPARC officials assume that $51.705 million of this reduction in would be represented by the reduction in Net Tax Due from the baseline $5,109.439 million to $5,057.734 million, and the remaining $162.078 million would be refunded to taxpayers.

Oversight will use the EPARC estimate of revenue reduction for this proposal.

FISCAL IMPACT - State Government	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE FUND			
Revenue reduction - DOR			
Earned income tax credit			
Section 135.760	($213,783,000)	($213,783,000)	($213,783,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($213,783,000)**	**($213,783,000)**	**($213,783,000)**

FISCAL IMPACT - Local Government	FY 2015 (10 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

This proposal would authorize an earned income tax credit for individuals that qualify for a federal earned income tax credit. The tax credit would be equal to twenty percent of the federal credit. The tax credit would be refundable, and taxpayers would be eligible for the tax credit beginning January 1, 2014. No tax credits would be authorized after 2020. The Department of Revenue would be required to contract with a nonprofit group to provide notice of the tax credit to eligible taxpayers, and would be required to prepare a report on issuances of the tax credit.

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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