

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6303-02
Bill No.: HCS for HB 2049
Subject: Employees - Employers; Taxation and Revenue - Income
Type: Original
Date: April 15, 2014

Bill Summary: This proposal would allow certain employers to retain withholding tax payable by the employer in an amount equal to the federal unemployment tax act credit rate deduction.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	(\$22,877 to \$140,422,877)	\$0 to (\$140,400,000)	\$0 to (\$140,400,000)
Total Estimated Net Effect on General Revenue Fund	(\$22,877 to \$140,422,877)	\$0 to (\$140,400,000)	\$0 to (\$140,400,000)

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 8 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

Officials from the **Office of Administration - Information Technology Services Division** and the **Department of Labor and Industrial Relations** provided estimates of the IT cost to implement this proposal.

The estimates included \$2,100 for DOLIR, based on 70 hours at \$30 for programming to provide current information regarding employer accounts to the Department of Revenue and \$20,777 for the Department of Revenue.

Oversight will include the IT cost of $(\$2,100 + \$20,777) = \$22,877$ to the General Revenue Fund in this fiscal note.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would have statewide impact and could impact the calculation required under Article X, Section 18(e) of the Missouri Constitution.

BAP officials assume this proposal would allow an employer, whose unemployment account has a positive balance, to retain state withholding tax in an amount equal to any federal unemployment tax act credit reduction. Information provided to BAP by the Department of Labor and Industrial Relations (DOLIR) indicated that employers could lose as much \$140.4 million in 2014, and possibly higher amounts in 2015, based on unemployment factors from previous years. BAP officials assume DOLIR may have more specific information about potential future impact.

Therefore, BAP officials assume this proposal could reduce Total State Revenues in years when employers lose federal credits, beginning as early as September 2014. BAP officials also noted the proposal does not provide specific information as to the timing or amounts of withholding retention.

Oversight will indicate a revenue reduction from \$0 to \$140.4 million to the General Revenue Fund for this proposal.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** assume this proposal would allow certain employers to retain withholding tax in an amount equal to the federal unemployment tax act credit reduction.

Fiscal impact

DOR officials assume this proposal would reduce state revenues but did not provide an estimate of the reduction.

Administrative impact

DOR officials assume withholding tax would require forms changes, and system programming to track the amounts withheld.

DOR officials did not include an estimate of the administrative cost to implement this proposal and **Oversight** assumes DOR could implement this proposal with existing resources.

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 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 **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 the Secretary of State**, the **Office of Administration - Divisions of Accounting and Personnel**, **Linn State Technical College**, **Missouri State University**, the **University of Central Missouri**, and the **University of Missouri** assume this proposal would have no fiscal impact on their organizations.

ASSUMPTION (continued)

Officials from **Missouri Western State University, St. Louis County, the City of Kansas City, and the St. Louis County Directors of Elections** assumed a previous version of this proposal would have no fiscal impact on their organizations.

Not responding

Officials from the following counties: Andrew, Audrain, Barry, Bates, Boone, Buchanan, Callaway, Camden, Cape Girardeau, Carroll, Cass, Clay, Cole, Cooper, DeKalb, Franklin, Greene, Holt, Jackson, Jefferson, Johnson, Knox, Laclede, Lawrence, Lincoln, Marion, Miller, Moniteau, Monroe, Montgomery, New Madrid, Nodaway, Ozark, Perry, Pettis, Phelps, Platte, Pulaski, Scott, St. Charles, St. Francois, Taney, Warren, Wayne and Worth did not respond to our request for information.

Officials from the following cities: Ashland, Belton, Bernie, Bonne Terre, Boonville, California, Cape Girardeau, Clayton, Columbia, Dardenne Prairie, Excelsior Springs, Florissant, Frontenac, Fulton, Gladstone, Grandview, Harrisonville, Independence, Jefferson City, Joplin, Kearney, Knob Noster, Ladue, Lake Ozark, Lebanon, Lee Summit, Liberty, Louisiana, Maryland Heights, Maryville, Mexico, Monett, Neosho, O'Fallon, Pacific, Peculiar, Popular Bluff, Raytown, Republic, Richmond, Rolla, Sedalia, Springfield, St. Charles, St. Joseph, St. Louis, St. Robert, Sugar Creek, Sullivan, Warrensburg, Warrenton, Webb City, Weldon Spring and West Plains did not respond to our request for information.

Officials from the following school districts: Blue Springs, Branson, Charleston R-I, Cole R-I, Columbia, Fair Grove, Francis Howell, Fulton, Harrison R-IX, Independence, Jefferson City, Johnson County R-7, Kansas City, Kirksville, Kirbyville R-V, Lee's Summit, Malden R-I, Malta Bend, Mexico, Monroe City R-I, Nixa, Parkway, Pattonville, Raymore-Peculiar R-III, Raytown, Riverview Gardens, Sedalia, Sikeston, Silex, Special School District of St. Louis County, Spickard, St Joseph, St Louis, St. Charles, Sullivan, Warren County R-III, and Waynesville did not respond to our request for information.

Officials from the following colleges: Crowder, East Central Community College, Harris-Stowe, Jefferson College, Kansas City Metro Community College, Lincoln University, Moberly Area Community College, Missouri Southern State University, Northwest Missouri State University, Southeast Missouri State University, State Fair Community College, St. Charles Community College, St. Louis Community College, Three Rivers Community College, and Truman State University did not respond to our request for information.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (6 Mo.)	FY 2016	FY 2017
GENERAL REVENUE FUND			
<u>Cost - OA</u>			
IT Cost			
Section 288.095	(\$22,877)	\$0	\$0
<u>Revenue reduction - DOR</u>			
Payroll tax withheld by employers	\$0 to	\$0 to	\$0 to
Section 288.095	<u>(\$140,400,000)</u>	<u>(\$140,400,000)</u>	<u>(\$140,400,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(\$22,877 to <u>(\$140,422,877)</u>	\$0 to <u>(\$140,400,000)</u>	\$0 to <u>(\$140,400,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2015 (6 Mo.)	FY 2016	FY 2017
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal would have a direct positive fiscal impact to eligible small businesses which could retain payroll withholding tax to offset the reduction in state credit on their federal unemployment tax.

FISCAL DESCRIPTION

This proposal would allow an employer to retain employee withholding taxes in an amount equal to the reduction in Federal Unemployment Tax Act credit, when that employer's account had a positive balance for the preceding calendar year with the Department of Labor and Industrial Relations, Division of Employment Security. The Department of Revenue would credit that employer with the full amount of withholding tax.

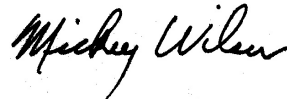
The Department of Labor and Industrial Relations would be required to notify employers each year by January 31 of the status of the employer's account and the amount, if any, of federal credit reduction. The Division of Employment Security would be required to notify the Department of Revenue which employers would be eligible to retain employee withholding taxes, and the employers would be required to notify the Department of Revenue as to employee withholding taxes withheld.

This proposal has an effective date of January 1, 2015.

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
 Information Technology Services Division
 Division of Personnel
Department of Labor and Industrial Relations
Department of Revenue
Linn State Technical College
Missouri State University
Missouri Western State University
University of Central Missouri
University of Missouri
St. Louis County
City of Kansas City
St. Louis County Directors of Elections



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April 15, 2014

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April 15, 2014