

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6508-01
Bill No.: HB 2226
Subject: Taxation and Revenue - Income; Federal - State Relations; Revenue Department
Type: Original
Date: April 14, 2014

Bill Summary: This proposal would increase the individual deduction for federal income tax liability to \$10,000 for single filers and \$20,000 for combined return filers for years beginning on or after January 1, 2015.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	\$0	(\$148,243,000)	(\$148,243,000)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$148,243,000)	(\$148,243,000)

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 6 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 - Division of Budget and Planning** assume this proposal would have statewide impact, and would impact the calculation under Article X, Section 18(e) of the Missouri Constitution.

BAP officials noted this proposal would double the individual deductions for federal taxes paid to \$10,000 per taxpayer. Based on Tax Year 2011 data, BAP officials estimated this would reduce Total State Revenues by \$149.2 million annually. BAP officials assume that, since this proposal would be effective for 2015, taxpayers would adjust withholdings and declarations as early as January 2015. BAP officials also assume those adjustments would reduce Total State Revenues by \$53.7 million in FY 2015.

Officials from the **University of Missouri - Economic and Policy Analysis Research Center (EPARC)** assume this proposal would, if enacted, increase the amount of federal income tax liability an individual may deduct to \$10,000 for single taxpayer returns and \$20,000 for combined returns for years beginning on or after January 1, 2015.

EPARC officials prepared a baseline simulation using the most recent data from 2012 and existing provisions. The baseline simulation indicated Net Tax Due would be \$5,109.439 million. The EPARC simulation using that same data, with the federal tax deduction increased to \$10,000 for individual filers and \$20,000 for combined filers indicated Net Tax Due would be \$4,961.196 million, a reduction of \$148.243 million.

Oversight will use the EPARC estimate of fiscal impact for this fiscal note. Although Oversight is aware filers could reduce their estimated payments or withholding amounts in anticipation of a tax reduction, Oversight will include the entire estimated revenue reduction for 2015 in FY 2016 since tax returns for 2015 would be filed beginning in January 2016 (FY 2016).

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** provided the following information.

Fiscal impact

DOR officials noted that beginning January 1, 2015, this proposal would allow individual taxpayers to receive a federal income tax deduction of \$10,000 for a single filers or \$20,000 for combined filers. Using tax year 2011 data, DOR officials estimated Total State Revenue could be reduced by as much as \$147.6 million.

Administrative impact

DOR officials did not provide an estimate of administrative impact, and **Oversight** assumes any administrative cost to implement this proposal would be minimal and could be absorbed with existing resources.

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 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 **Office of the Secretary of State** and the **Joint Committee on Administrative Rules** assume this proposal would have no fiscal impact on their organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE FUND			
<u>Revenue reduction - additional federal income tax deduction</u> Section 143.171	\$0	(\$148,243,000)	(\$148,243,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$148,243,000)</u>	<u>(\$148,243,000)</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

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

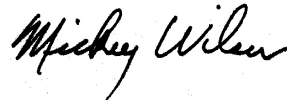
FISCAL DESCRIPTION

This proposal would increase the individual deduction for federal income tax liability from \$5,000 to \$10,000 for single taxpayers, and from \$10,000 to \$20,000 for taxpayers filing combined returns beginning 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 Budget and Planning
Department of Revenue
University of Missouri
 Economic and Policy Analysis Research Center

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
April 14, 2014

Ross Strobe
Assistant Director
April 14, 2014