COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0143-02
Bill No.: HCS for HB 109
Subject: Tax Credits; Taxation and Revenue - Income
Type: Original
Date: March 27, 2017

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	($108,529)	$0	$0 or ($57,800,000)
Total Estimated Net Effect on General Revenue	**($108,529)**	**$0**	**$0 or ($57,800,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
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 2018	FY 2019	FY 2020
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **University of Missouri - Economic and Policy Analysis Research Center (EPARC)** stated that if enacted, this proposal would 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. The credit would not be refundable.

EPARC officials prepared a baseline simulation of Missouri individual income tax returns using existing statutory provisions, which indicated Net Tax Due of $5,811.499 million. A second simulation using the same information and provisions, and the proposed tax credit, indicated Net Tax Due of $5,753.683 million, a reduction in Net Tax Due of $57.816 million.

EPARC officials also noted this version would include a revenue trigger. The earned income tax credit would be effective once the $150 million revenue trigger from Senate Bill 509 (2014) is met, and would continue so long as revenues increase by at least the amount of the aggregate impact of the proposed earned income credit. EPARC officials assume the revenue trigger would be met by 2019 and the proposed tax credit would continue thereafter.

EPARC officials also provided an explanatory note:

The simulation included an increase the General Tax Credits figure of $226.959 million; this amount is the complete measure of 20% of Missouri filers' Federal Earned Income Credit. Many filers are able to reduce their tax burden to zero before using their entire credit. Because this proposal would not allow the remainder to be refunded, our impact estimation is only concerned with the reduction in Net Tax Due.

Oversight will use the EPARC estimate of fiscal impact for this proposal, rounded for convenience. Because the Senate Bill 509 revenue reduction trigger may or may not be met, Oversight will indicate an impact of $0 or the EPARC estimate.

ASSUMPTION (continued)

Officials from the **Office of Administration - Division of Budget and Planning (B&P)** assume this proposal would provide a non-refundable Earned Income Tax Credit (EITC) to resident taxpayers in an amount equal to 20% of the taxpayer's federal EITC starting in tax year 2019, or upon growth in net general revenue sufficient to trigger the first reduction of the individual income tax. The first trigger is estimated to be met for tax year 2018; therefore, B&P assumes that this proposal would take effect in tax year 2019.

Using Department of Revenue tax year 2014 data, the most recent year available, B&P officials estimated that a non-refundable earned income tax credit would reduce Total State Revenues and General Revenue by $63.6 million annually beginning in FY 2020. B&P officials assume the proposal would also impact the constitutional revenue limit calculation.

B&P officials also noted the language in the proposal would only become effective if net general revenue growth is sufficient to trigger the first individual income tax rate reduction and if there is continued growth in net general revenue of at least an amount equal to the annual revenue reduction from this proposal. For the purposes of this fiscal note, B&P officials assume the trigger would need to be met for tax year 2018 or 2019, and in subsequent years net revenue would be required to grow by at least the reduction from this proposal in order for the EITC to be available the following tax year.

Using tax year 2014 data, the most recent year available, provided by DOR, B&P estimates that a non-refundable earned income tax credit would reduce Total State Revenue and general revenue $63.6 million annually beginning in FY 2020. B&P officials also assume the proposal would impact the required constitutional revenue limit calculation.

Officials from the **Department of Revenue (DOR)** assume this proposal would create the Missouri Earned Income Tax Credit Act. Beginning January 1, 2019, qualifying individuals would receive a tax credit in the amount of twenty percent of what the taxpayer would receive under the federal earned income tax credit. The proposal would require DOR to notify taxpayers of their potential eligibility for the credit, and to contract with nonprofit groups to provide the notification of eligibility. In addition, DOR would be required to prepare an annual report for the previous tax year.

ASSUMPTION (continued)

DOR officials stated that in 2014, 486,398 eligible Missouri taxpayers claimed federal earned income credits totaling $1,152,149,902. Using these amounts and the total tax liability for those taxpayers, the Department determined that if each taxpayer received a nonrefundable credit equal to 20 percent of the federal credit, the total reduction in tax would be $63.6 million in the first year the credit is authorized.

Administrative Impact

DOR officials assume Personal Tax would require four additional Temporary Tax Employees for key-entry and five additional Revenue Processing Technicians I for processing and verification of returns, correspondence, and compliance assurance after Taxation processes the return. Collections and Tax Assistance would require two additional Tax Collections Technicians I for contacts on the delinquency and income tax phone lines. Both technicians would require CARES phone systems.

IT impact

DOR officials estimated the IT cost to upgrade the Integrated Tax System at $108,529 to implement the provisions of this legislation.

In total, the DOR estimate of cost to implement this proposal including additional employees, benefits, equipment, expense, and IT upgrades totaled $458,535 for FY 2018, $362,114 for FY 2019, and $365,138 for FY 2020.

Oversight notes this proposal would implement a state Earned Income Tax Credit (EITC) program based on and dependent on the federal EITC program. Oversight assumes this proposal would change a limited number of computations on individual income tax returns and assumes the proposal would not have a significant impact on the number of returns filed. Oversight also notes a high percentage of income tax returns are prepared online, electronically, or by paid preparers, and assumes there would not be a significant number of additional errors resulting from the changes in this proposal.

Oversight 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.

ASSUMPTION (continued)

Oversight will include the DOR estimate of IT cost in this fiscal note.

In response to a previous version of this proposal, officials from the **Office of the Secretary of State (SOS)** stated that 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 SOS 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** stated this legislation is not anticipated to cause a fiscal impact beyond its current appropriation.

FISCAL IMPACT - State Government	FY 2018 (10 Mo.)	FY 2019	FY 2020
GENERAL REVENUE FUND			
Cost - DOR			
IT upgrades	($108,529)	$0	$0
Revenue reduction			
Earned income tax credit	$0	$0	$0 or ($57,800,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($108,529)**	**$0**	**$0 or ($57,800,000)**

FISCAL IMPACT - Local Government	FY 2018 (10 Mo.)	FY 2019	FY 2020
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

The proposed legislation would authorize a Missouri earned income tax credit. Beginning January 1, 2019, an individual would receive an 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 in excess of the taxpayer's income tax liability could not be refunded or carried over.

The Department of Revenue would be required to notify taxpayers who may qualify for the credit, and 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 according to income ranges to be determined by the department.

The proposed tax credit would be contingent upon the achievement of growth in net general revenue sufficient to trigger the first reduction of the individual income tax top rate under subsection 2 of section 143.011 and continued net general revenue growth of at least an amount equal to the annual revenue reduction of the proposed earned income 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

Mickey Wilson, CPA
Director
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Ross Strope
Assistant Director
March 27, 2017

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