COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4162-01
Bill No.: HB 1357
Subject: Tax Credits, Taxation and Revenue - Income, Department of Revenue
Type: Original
Date: January 4, 2018

Bill Summary: This proposal authorizes an earned income tax credit in Missouri.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	$0	(Could Exceed $57,901,000)	(Could Exceed $57,901,000)
Total Estimated Net Effect on General Revenue	**$0**	**(Could Exceed $57,901,000)**	**(Could Exceed $57,901,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
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 2019	FY 2020	FY 2021
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning** (**B&P**) assume this proposal provides a non-refundable Earned Income Tax Credit (EITC) to resident taxpayers in an amount equal to 20% of the 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. B&P notes that the first trigger was met in FY 2017 for tax year 2018; therefore, this proposal would be enacted for tax year 2019.

B&P notes that the language in Section B states §135.760 will 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 of the EITC in this proposal. It is unclear what the term "continued" means. B&P assumes that the EITC would not be available in any tax year following a fiscal year where net General Revenue did not grow by the estimated impact of this proposal. However, B&P notes that because the word "continued" is vague, the EITC could be permanently eliminated after the first fiscal year where net General Revenue did not meet the "continued growth" requirement of Section B. For the purpose of this fiscal note, B&P assumes that every year after the initial individual income trigger was met (FY 2017 for tax year 2018); 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. However, because there will be no reduction from this proposal in FY 2018, B&P assumes that net General Revenue would not need to grow by the estimated revenue loss of this proposal in order for the EITC to become available in tax year 2019.

Using tax year 2015 data, the most recent year available, provided by DOR, B&P estimates that a non-refundable earned income tax credit will reduce Total State Revenue and General Revenue by $61.8 million annually beginning in FY 2020.

Officials at the **University of Missouri's Economic and Policy Analysis Research Center** (**EPARC**) assume this bill 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 beginning in 2019. This credit would not be refundable.

This version adds a revenue trigger. The earned income tax credit will be effective once the $150 million revenue trigger from subsection 2 of section 143.011, is met and will continue to be effective as long as revenues increase by at least the amount of the aggregate impact of this earned income credit. The aforementioned revenue trigger will also decrease the top tax rate for

ASSUMPTION (continued)

individual income tax filers. EPARC will assume this revenue trigger will be met by 2019 and this earned income credit will be effective every beyond 2019.

The individual income tax for Missouri (2016) is a baseline for our analysis. Net Tax Due equals $5,512.291 million. If the aforementioned tax credit is implemented, Net Tax Due reduces to $5,454.390 million. This translates into a decrease in Net General Revenue of $57.901 million in 2019 and every year beyond.

The increase seen in the General Tax Credits of $222.731 million 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 tax credit does not allow the remainder to be refunded to the filer, our impact estimation is only concerned with the reduction in Net Tax Due.

To reiterate, we estimate this bill will reduce Net General Revenue by $57.901 million in 2019 and every year beyond.

Oversight will show the impact as "Could exceed" the estimate provided by EPARC for the fiscal note.

Officials at the **Department of Revenue** (**DOR**) assume this proposal creates the Missouri Earned Income Tax Credit Act (EITC). Beginning January 1, 2019, the legislation allows eligible taxpayers a tax credit equal to twenty percent of the amount the taxpayer received under the federal earned income tax credit. If the credit exceeds the taxpayer's tax liability, the legislation prohibits refunding or carrying forward the credit to subsequent tax years.

The legislation requires the Department to prepare an annual report consisting of the amount of revenue expended on the earned income tax credit, the number of credits claimed, and the average value of the credit issued. In addition, the Department is required to contract with nonprofit groups in order to notify taxpayers of their potential eligibility to receive the credit.

Enactment Clause
Section B states §135.760 will only become effective if net General Revenue growth is sufficient to trigger the first individual income top tax rate reduction and if there is continued growth in net General Revenue of at least an amount equal to the annual revenue reduction of the EITC in this proposal. The Department assumes that the EITC would not be available in any tax year following a fiscal year where net general revenue did not grow by the estimated impact of this proposal. The Department assumes the EITC could be permanently eliminated after the first

ASSUMPTION (continued)

fiscal year where net general revenue did not meet the "continued growth" requirement of Section B. For the purpose of this fiscal note, the Department assumes that every year after the initial individual income trigger was met (FY17 for tax year 2018); 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. However, because there will be no reduction from this proposal in FY18, the Department assumes that net general revenue would not need to grow by the estimated revenue loss of this proposal in order for the EITC to become available in tax year 2019.

DOR estimates that a non-refundable earned income tax credit will reduce Total State Revenue and General Revenue by $61.8 million annually beginning in FY 2019.

DOR assumes the Personal Tax Section will require one Temporary Tax Employee ($89,164) and one Revenue Processing Technician I ($26,340) for every 14,800 errors generated and one Revenue Processing Technician I ($26,340) for every 5,800 additional correspondence generated. The Collections & Tax Assistance Section anticipates increased calls to the non-delinquent tax line due to confusing this credit with the federal credit. The federal credit is refundable while this one is not. It is likely the taxpayer will miscalculate the percentage or fail to include a copy of the federal return creating adjustment notices. The section requires one Tax Collection Technician I ($26,340) for every 15,000 contact annually on the non-delinquent tax line. This individual requires CARES equipment and license.

DOR estimated the FTE costs as $145,970 in FY 2019, $146,397 in FY 2020 and $147,570 in FY 2021. DOR assumes it will be able to absorb the above listed costs. If multiple bills pass which require Department resources and updates, the Department could request additional FTE and related equipment and expenses through the appropriation process.

Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

Officials from the **Office of the Secretary of State (SOS)** state 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, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding

ASSUMPTION (continued)

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.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

FISCAL IMPACT - State Government	FY 2019	FY 2020	FY 2021
GENERAL REVENUE			
Revenue Reduction - creation of the Missouri Earned Income Tax Credit §135.760	$0	(Could Exceed $57,901,000)	(Could Exceed $57,901,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0**	**(Could Exceed $57,901,000)**	**(Could Exceed $57,901,000)**

FISCAL IMPACT - Local Government	FY 2019	FY 2020	FY 2021
	$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

This bill establishes the "Missouri Earned Income Tax Credit Act" which authorizes 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, beginning on January 1, 2019. Any credit that exceeds the taxpayer's liability in any tax year cannot be refunded to the taxpayer. The Department of Revenue must notify taxpayers who may qualify for the credit and must 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 annually of

ASSUMPTION (continued)

the credit. The department must prepare an annual report containing 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.

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

Department of Revenue
Joint Committee on Administrative Rules
Office of Administration
  Division of Budget and Planning
Office of the Secretary of State
University of Missouri's Economic and Policy Analysis Research Center

Ross Strope

Acting Director
January 4, 2018