COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0606-01
Bill No.: HB 291
Subject: Tax Credits
Type: Original
Date: February 4, 2019

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	$0	Unknown to (Unknown) or ($41,653,984) to ($64,153,984)	Unknown to (Unknown) or ($41,655,167) to ($64,155,167)
Total Estimated Net Effect on General Revenue	**$0**	**Unknown to (Unknown) or ($41,653,984) to ($64,153,984)**	**Unknown to (Unknown) or ($41,655,167) to ($64,155,167)**

*** Oversight assumes a positive unknown to negative unknown for revenue estimates until we are able to estimate revenue or verity the data and models provided. Oversight will also reflect B&P's revenue estimates for the changes to the tax law.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
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 2020	FY 2021	FY 2022
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	0 FTE	3 FTE	3 FTE
Total Estimated Net Effect on FTE	**0 FTE**	**3 FTE**	**3 FTE**

☒ 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 2020	FY 2021	FY 2022
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Revenue** (**DOR**) assume this proposed section states that, for all tax years beginning on or after January 1, 2020, an eligible taxpayer shall be allowed a tax credit in an amount equal to twenty percent of the amount such taxpayer would receive under the federal earned income tax credit. The tax credit allowed by this section shall be claimed by such taxpayer at the time such taxpayer files a return and shall be applied against the income tax liability imposed under Chapter 143 after reduction for all other credits allowed thereon. If the amount of the tax credit exceeds the tax liability, the difference shall not be refunded to the taxpayer and shall not be carried forward to any subsequent tax year.

The enactment of §135.760 of this act shall become effective upon a growth in net general revenue sufficient to trigger the first reduction of the top individual income tax 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 earned income tax credit in this act.

The Department estimates that this proposed section could reduce Total State Revenue, specific to General Revenue, by $64 million each fiscal year, beginning in Fiscal Year 2021. This was calculated by using confidential taxpayer data, and inputting that information into our EITC calculator.

DOR's assumes the Personal Tax Section requires 1 Revenue Processing Technician I ($24,360) for every 14,700 errors created, 1 Revenue Processing Technician I ($24,360) for every 5,700 pieces of correspondence generated and 1 Management Analysis Specialist I ($38,304) to accommodate the reporting requirements within Section 135.760. Additionally, it may require form changes.

The Department may require additional funds for the expenditures to publish information to advertise and bring awareness to the tax credit proposed.

Oversight will show the DOR FTE in the fiscal note. Oversight notes this tax credit becomes effective January 1, 2020.

Officials at the **Office of Administration Division of Budget and Planning** (**B&P**) assume this proposal would create the Missouri Earned Income Tax Credit Act. Beginning with tax year 2020, resident taxpayers shall be granted a non-refundable tax credit equal to 20% of their federal EITC.

ASSUMPTION (continued)

Using tax year 2016 data, the most recent year available and accounting for the federal tax reform that took effect January 1, 2018 as well as SB 509 (2014) and HB 2540 (2018), B&P estimates that this provision will reduce Total State Revenue and General Revenue by $43.3 million in FY 2021 and annually thereafter.

This proposal will impact the calculation under Article X, Section 18(e).

Officials at the **University of Missouri's Economic and Policy Analysis Research Center** (**EPARC**) assume that if enacted, 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. This credit will not be refundable.

The individual income tax for Missouri (2016) as a baseline for our analysis shows that Net Tax Due equals $5,324.401 million. If the aforementioned tax credit is implemented, Net Tax Due reduces to $5,282.873 million. This translates into a decrease in Net General Revenue of $41.528 million.

The increase seen in the General Tax Credits figure of $222.735 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, if enacted we estimate this bill will reduce Net General Revenue by $41.528 million.

Oversight notes this proposal in Section B, says this earned income tax credit goes into effect only if the growth in net general revenue is sufficient to trigger the first reduction of the top individual income tax rate under subsection 2 of §143.011. Oversight notes that trigger was met with tax year 2018. Therefore this proposal would start on January 1, 2020 as outlined in this proposal.

Oversight notes the changes in this proposal would be effective beginning January 1, 2020, and the first income tax returns would be filed reflecting these changes in January, 2021 (FY 2021). For fiscal note purposes, Oversight would include the revenue reductions in the year in which the affected tax returns would be filed; therefore, the first year this proposal would have an impact would be FY 2021.

ASSUMPTION (continued)

Officials at the **Joint Committee on Administrative Rules** (**JCAR**) assume this proposal is not anticipated to cause a fiscal impact beyond current appropriations.

Oversight assumes JCAR will be able to administer any rules resulting from this proposal with existing resources.

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 SOS for Administrative Rules is less than $5,000. 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 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 require additional resources.

Oversight currently does not have the data or resources available to produce independent revenue projections, therefore Oversight uses the same assumptions for revenue growth as the FY 2020 Consensus Revenue Estimate (CRE) for revenue growth in all future years. The CRE assumes an increase in net general revenue collections of $192.6 million for FY 2020.

Oversight notes pursuant to §143.011 - §143.022 (SBs 509 & 496 2014) if the previous fiscal year's net general revenue collections exceed the highest net general revenue collections of the three previous fiscal years by at least $150 million, then there will be a reduction in the individual income tax rate by one-tenth of a percent and a reduction for individual income tax filers of 5% of "business income." These reductions will reduce net General Revenue collections by an estimated $160.0 million annually. Oversight notes the proposed legislation may impact future net revenue collections and could impact future triggering of the rate reductions required under §143.011 - §143.022.

ASSUMPTION (continued)

Oversight notes that it **does not currently have the resources and/or access to state tax data** to produce an independent revenue estimate and is unable to verify the revenue estimates provided by B&P and DOR.

Oversight assumes a positive unknown to negative unknown for revenue estimates until we are able to estimate revenue or verify the data and models provided. Oversight will also reflect B&P and DOR's revenue estimates.

FISCAL IMPACT - State Government	FY 2020 (6 Mo.)	FY 2021	FY 2022
GENERAL REVENUE			
Revenue Reduction - DOR §135.760 creation of an Earned Income Tax Credit*	$0	($41,500,000) to ($64,000,000)	($41,500,000) to ($64,000,000)
Cost - DOR §135.760			
Personal Service	$0	($87,894)	($88,773)
Fringe Benefits	$0	($64,617)	($64,885)
Equip & Exp	$0	($1,473)	($1,509)
Total Cost -	$0	($153,984)	($155,167)
FTE Change	0 FTE	3 FTE	3 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0**	**($41,653,984) to ($64,153,984)**	**($41,655,167) to ($64,155,167)**
Estimated Net FTE Change on General Revenue	0 FTE	3 FTE	3 FTE

*** Oversight assumes a positive unknown to negative unknown for revenue estimates until we are able to estimate revenue or verity the data and models provided. Oversight will also reflect B&P's revenue estimates for the changes to the tax law.**

FISCAL IMPACT - Local Government	FY 2020 (6 Mo.)	FY 2021	FY 2022
	$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, 2020. 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 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

Kyle Rieman
Director
February 4, 2019

Ross Strope
Assistant Director
February 4, 2019

JH:LR:OD