

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0384-01  
Bill No.: HB 63  
Subject: Elderly; Property, Real and Personal; State Tax Commission;  
 Taxation and Revenue - General; Taxation and Revenue - Property  
Type: Original  
Date: January 4, 2005

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	\$0	(\$5,109,526)	(\$7,149,957)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>(\$5,109,526)</b>	<b>(\$7,149,957)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
 This fiscal note contains 5 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**FISCAL ANALYSIS**

**ASSUMPTIONS**

Officials from the **Office of Administration, Division of Budget and Planning** and the **State Tax Commission** assume this proposal would have no impact to their organizations.

Officials from the **Department of Revenue (DOR)** assume this proposal would increase the maximum upper limit of earned income and the maximum tax credit limit, and result in more property tax credit claims. DOR estimated that 30% of existing filers would qualify for the increased maximum credit but did not estimate the number of additional claims which might be filed.

Personal Tax currently has 11 full time and 25 temporary employees that handle the 250,000 PTC claims received annually. Due to the increased work load Personal Tax will need 1 Tax Processing Tech I for every 25,000 additional claims and 1 Tax Season Temporary for every additional 10,000 claims for key entry.

In addition, DOR assumes the MINITS mainframe system would need to be modified for the changes to the income limits each year. DOR estimates it will take 1 programmer 4 months (692 hours @ \$33.36 = \$23,085) to change and test the system for processing.

ASSUMPTIONS (continued)

DOR Customer Assistance anticipates an increase in walk-ins and phone calls regarding the increases, and more taxpayers needing assistance in completion of the tax returns due to more taxpayers qualifying for the credit. DOR estimates Customer Assistance will need 1 Tax Processing Tech for every additional 4,800 contacts in the Tax Assistance Centers and 1 Tax Collection Tech for every 24,000 additional calls to the income tax inquiry line.

The DOR response included \$113,938 for personnel and related costs in FY 2006, and \$113,107 and \$115,934 for FY 2007 and FY 2008, respectively.

**Oversight** has excluded any additional FTE from this fiscal note since the limited changes in this proposal should not lead to a material increase in the number of claims. Also, Oversight has reduced the estimated programming to 346 hours at a cost of \$11,543 consistent with the DOR response to a similar proposal in a previous session.

Officials from the **University of Missouri Research Center (UMRC)** assume the proposal intends to index the income values assigned to the senior citizen property tax credit to inflation. The proposal specifies that inflation is measured by the annual rate of change in the Consumer Price Index. Overall, we estimate that the impact of the tax code change will be to reduce net general revenues by approximately \$5.1 million in 2006.

In the first year, two changes are implemented simultaneously:

- (i) an increase in income brackets, and
- (ii) an increase in the maximum credit up to \$800 per filer.

In subsequent years, only income brackets are affected by the indexation scheme. The result is that net general revenues will decrease by \$1.8 to \$2.0 million in each of the calendar years 2007-2010. The simulation uses a 3.2% change in the Urban Consumer Price Index per year, with 2005 as the base year. The inflation rate is from 2004. The following table reflects the minimum and maximum income brackets used in calculating the estimate for the property tax refund credit, based on data from 2002 income tax returns. The minimum and maximum brackets are first set in 2006 at \$13,300 and \$25,500, respectively; from 2007 on they are calculated by multiplying the top and bottom income brackets by 1.032 and then rounding to the nearest \$50, up or down. For those individuals who filed a standard deduction but not a Property Tax Credit form, the amount of property tax is calculated based on the average tax of other filers in the same tax bracket for whom we know their property tax amount.

ASSUMPTIONS (continued)

Year	Minimum Tax Bracket	Maximum Tax Bracket	Estimated Year to Year Change in Tax Credit
2005 (Current parameters)	\$13,000	\$25,000	\$0
2006	\$13,300	\$25,500	\$5,097,983
2007	\$13,750	\$26,300	\$2,040,431
2008	\$14,200	\$27,150	\$1,951,176
2009	\$14,650	\$28,000	\$1,894,959
2010	\$15,150	\$28,300	\$1,807,695

**Oversight** notes that this proposal would increase the maximum credit, and the minimum and maximum income limits for calendar 2006, reducing income taxes in FY 2007.

**This proposal would reduce Total State Revenue.**

<u>FISCAL IMPACT - State Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
<b>GENERAL REVENUE FUND</b>			
<u>Revenue reduction</u> - increased property tax credits.	\$0	(\$5,097,983)	(\$7,138,414)
<u>Cost</u> - Department of Revenue Programming - 346 hours	\$0	(\$11,543)	(\$11,543)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b>\$0</b>	<b>(\$5,109,526)</b>	<b>(\$7,149,957)</b>

<u>FISCAL IMPACT - Local Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
	<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.

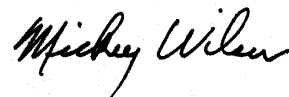
DESCRIPTION

This proposal would liberalize the Senior Citizens Circuit Breaker Tax Relief program. Beginning in 2006, the maximum credit would be increased from \$750 to \$800, and the minimum base and maximum upper limit would be increased and indexed to the federal Consumer Price Index. **This proposal would reduce Total State Revenue.**

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  
State Tax Commission  
Office of Administration  
    Division of Budget and Planning  
University of Missouri Research Center



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Director  
January 4, 2005