

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0401-01  
Bill No.: HB 54  
Subject: Education, Elementary and Secondary: Revenue Dept; Taxation and Revenue - General; Taxation and Revenue - Income; Taxation and Revenue - Property  
Type: Original  
Date: February 16, 2005

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue*	\$0 to \$8,409,835	\$0 to \$23,642,453	\$0 to \$24,593,644
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0 to \$8,409,835</b>	<b>\$0 to \$23,642,453</b>	<b>\$0 to \$24,593,644</b>

**\* This proposal is permissive. Voter approval would be required before fiscal impact would be realized.**

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

Numbers within parentheses: ( ) indicate costs or losses.  
 This fiscal note contains 9 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>(UNKNOWN) to \$896,285,890</b>	<b>(UNKNOWN) to \$2,374,274,553</b>	<b>(UNKNOWN) to \$2,469,245,535</b>

\* **This proposal is permissive. Voter approval would be required before fiscal impact would be realized.**

**FISCAL ANALYSIS**

ASSUMPTION

Officials from the **Office of State Auditor, Office of State Treasurer, Office of Secretary of State - Division of Elections,** and the **Office of Administration - Division of Accounting** assume this proposal would not fiscally impact their respective agencies.

Officials of the **Office of the Secretary of State (SOS)** assume this proposal allows school districts to enact income and sales taxes. Based on experience with other divisions, the rules, regulations and forms issued by the Department of Revenue could require approximately 10 pages in the Code of State Regulations. For any given rule, roughly one-half again as many pages are published in the Missouri Register as are published in the Code because of cost statements, fiscal notes and notices that are not published in the Code. The estimated cost of a page in the Missouri Register is \$23. The estimated cost of a page in the Code of State Regulations is \$27. Costs are estimated at \$615. The actual cost could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded, and withdrawn.

**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 appropriations process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal

ASSUMPTION (continued)

years.

Officials from the **Department of Elementary and Secondary Education (DESE)** state there is no cost to DESE as DESE is not involved in administering or overseeing the collection and distribution of the tax. If the sales tax is approved by voters, there would be an unknown increase to the General Revenue Fund, because the Department of Revenue is authorized to collect a 1% administration fee which is to be deposited into the General Revenue Fund. There is no savings or additional cost to the state aid formula.

DESE stated it is not possible to estimate how many districts would adopt such income tax surcharge or sales tax, nor what rate of tax would go into effect; therefore DESE did not provide an impact estimate.

Officials of the **Office of Administration - Division Budget and Planning** assume this proposal should not result in additional costs or savings to the Division of Budget and Planning or the Office of Administration. Should voters approve the income or local sales tax surcharges, there will be an unknown increase in total state revenue as a result of the 1% collection fee imposed by the Department of Revenue.

Officials from the **Attorney General's Office (AGO)** did not respond to a request for fiscal note; however, in response to an identical proposal from last session (HB 856), AGO assumed that the increased workload from additional collection responsibilities can be absorbed with existing resources.

Officials of the **Department of Revenue (DOR)** made the following assumptions regarding sections of the proposal that directly affect their agency:

162.1158 authorizes DOR to collect the surcharge with the following provisions;

All applicable provisions in Chapter 143

The surcharge is imposed on the tax due in Chapter 143 and shall be paid annually

Penalties provided in Chapter 143 are applicable

162.1160 and 162.1166 allow DOR to retain a 1% collection fee from the surcharge.

162.1168- Legislation indicates that DOR shall keep records of the amount of money in the trust fund and that the records will be open to the public.

162.1168.2 Provides DOR refund capabilities.

LMD:LR:OD (12/02)

ASSUMPTION (continued)

Forms and instructions would need to be revised causing 4 pages to be added to the books at a cost of \$40 per thousand or \$104,000 in additional printing costs.

Taxation would need 1 FTE for every 500,000 persons that file a surcharge income tax return.

Personal Tax will require systems, forms, instructions, procedure, policy, and regulation changes. Anticipating a minimum of 5 % impact to processing time will increase needs to include the following: 1 Temporary Clerk for 5 months for every 150,000 returns impacted. Also 1 TPT1 for five months for every additional 30,000 errors generated. Personal Tax will also require 1 TPT1 for every 3,000 pieces of correspondence received associated with this tax.

Customer Assistance will need 1 TPT1 for every additional 24,000 calls on this surcharge.

Accounting Services will need at least 1 Account Clerk II to process the new deposit tickets. Modification to the cashiering programs will also be needed.

Information Technology will need to make changes to MINITS that will require both FTE hours as well as contract programming to complete the work. A total cost of programming would be 3114 hours totaling \$121,125 broken down as follows:

2076 hours X \$33.36 = \$69,255 ( Overtime programming)

1038 hours X \$50.00 = \$51,900 (Contract Programming)

For a total of \$121,125 in programming

Withholding Tax section will require four programmers or 6228 hours, for a cost of \$207,766, to complete the needed changes to the DWIT system should the surcharge be tracked and collected along with current withholding taxes. Depending on how the surcharge is treated and tracked, this cost may be less.

Sales tax will need 1 TPT to handle the additional work load as well as 692 hours of programming on MITS for a cost of \$23,085.

State Data Center implementation costs would be \$10,451 with an ongoing cost of \$878.

In response to a prior, similar proposal (HB 381 - 2003), DOR estimated that changes to MINITS would require 1,384 hours of overtime programming at a cost of \$46,174 and 519 hours of contract programming would be needed at a cost \$15,606. Therefore, **Oversight** will reflect the programming costs associated with MINITS as \$61,780.

ASSUMPTION (continued)

**Oversight** assumes the total administrative impact to DOR from this legislation is unknown. The number of FTE required would depend on how many school districts (if any) would approve such a surcharge and if the one percent (1%) collection fee would cover DOR's expenses. Since DOR has requested 9 FTE and 2 tax season temporaries, **Oversight** assumes this represents the estimated number of FTE needed based on DOR's stated workload measures if the income tax surcharge is passed by school districts in the state. **Oversight** will reflect the cost of FTE and related expenses as a range from \$0 to the actual costs for the total FTE requested by DOR.

**Oversight** assumes this proposal is permissive and would require voter approval before any positive fiscal impact would be realized by the state. **Oversight** presented the fiscal impact in a range of no voters passing such measure to all school districts in the state passing **both** the income tax surcharge and the sales tax measures. **Oversight** assumed a 4 percent growth rate in sales tax revenue from the FY06 projections for FY07 and FY08. **Oversight** assumes the Income Tax Surcharge, at the earliest, would be passed by the voters in October, 2005 and therefore, would not be effective until January 1, 2006, at which time employers would withhold from earnings and remit to the state. **Oversight** also assumed the Local Sales Tax, at the earliest, would be passed by voters in October, 2004, and therefore, would become effective April 1, 2006. With a month of lag time, only 2 months of revenue would be realized in FY 2006. **Oversight** also assumes DOR would complete the programming changes related to the Income Tax Surcharge and the Local Sales Tax in FY06.

The following school districts provided the following assumptions regarding fiscal impact:

Officials from the **Parkway School District** stated this proposal has an unknown fiscal impact on their district because it would depend upon voter approval.

Officials from the **Columbia School District** indicated this proposal could increase school funding.

Officials from the **Salisbury School District** did not anticipate any negative fiscal impact from this proposal.

Officials from the **Kansas City Missouri School District (KCMSD)** state the proposal to allow districts several options on how to generate additional revenue is appealing. However, KCMSD is unable to determine if the enactment of this proposal will generate more revenue, or if the source of funding would continue to increase at the local level and decrease State funding. KCMSD assumes the proposed legislation does not address the impact this proposal will have on State funding, therefore it is not possible to determine if the proposal will have a net increase in

ASSUMPTION (continued)

revenue.

**This proposal could result in an increase in Total State Revenue.**

<u>FISCAL IMPACT - State Government</u>	FY 2006 (6 Mo.)	FY 2007	FY 2008
<b>GENERAL REVENUE FUND</b>			
<u>Income - General Revenue Fund</u>			
1% collection fee from income tax surcharge at the local level*	\$0 to \$7,815,000	\$0 to \$16,255,000	\$0 to \$16,905,200
<u>Income - General Revenue Fund</u>			
1% collection fee from sales tax at the local level* (2 months in FY 06)	<u>\$0 to</u> \$1,238,393	<u>\$0 to</u> \$7,727,571	<u>\$0 to</u> \$8,036,674
Total Income - General Revenue*	\$0 to \$9,053,393	\$0 to \$23,982,571	\$0 to \$24,941,874
<u>Costs - Department of Revenue</u>			
Administering & collecting sales tax Programming	\$0 to (\$23,085)	\$0	\$0
<u>Costs - Department of Revenue</u>			
Administering & collecting surcharge			
Personal Service (8 FTE & 2 temps.)	\$0 to (\$121,902)	\$0 to (\$239,567)	\$0 to (\$245,167)
Fringe Benefits	\$0 to (\$45,361)	\$0 to (\$95,557)	\$0 to (\$97,946)
Expense and Equipment	\$0 to (\$69,280)	\$0 to (\$4,116)	\$0 to (\$4,239)
Programming - MINITS	\$0 to (\$61,780)	\$0	\$0
Programming - DWIT system	\$0 to (\$207,699)	\$0	\$0
Data Center Implementation Costs	\$0 to (\$10,451)	\$0 to (\$878)	\$0 to (\$878)
Printing	<u>\$0 to (\$104,000)</u>	<u>\$0</u>	<u>\$0</u>
Total Costs - DOR	<u>\$0 to (\$643,558)</u>	<u>\$0 to (\$340,118)</u>	<u>\$0 to (\$348,230)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUNDS</b>	<u><b>\$0 to</b></u> <u><b>\$8,409,835</b></u>	<u><b>\$0 to</b></u> <u><b>\$23,642,453</b></u>	<u><b>\$0 to</b></u> <u><b>\$24,593,644</b></u>



## DESCRIPTION

This proposal allows school districts to adopt by voter approval a personal income tax, sales tax, or both. Moneys raised by the taxes would not be deducted from a district's state school aid. For either tax, the school district must specify the purpose of the tax and the period of time for which the tax will be imposed, not to exceed three years. The income tax is a 5, 10, or 15% surcharge on state personal income tax. The sales tax may be up to one cent, in eighth-cent increments. The income tax may also be used for property tax reduction, in which case it may run up to five years.

The proposal contains technical provisions for the handling and transfer of funds and for the conduct of the elections.

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

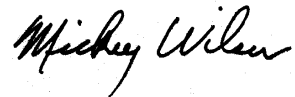
Department of Elementary and Secondary Education  
Office of Secretary of State  
    Elections Division  
    Administrative Rules Division  
Office of State Auditor  
Office of Administration  
    Division of Accounting  
    Division of Budget and Planning  
Department of Revenue  
    Division of Taxation  
Office of State Treasurer  
School Districts  
    Parkway  
    Columbia  
    Salisbury  
    Kansas City



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**NOT RESPONDING**

**Office of Attorney General**

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive style with a large, prominent "M" and "W".

Mickey Wilson, CPA  
Director  
February 16, 2005