

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1144-01
Bill No.: HB 567
Subject: Revenue Dept.; Taxation and Revenue - Income
Type: Original
Date: February 17, 2009

Bill Summary: Would change the laws regarding the Missouri individual tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	\$0	\$0 or \$2,000,838,114	\$0 or \$2,000,801,361
Total Estimated Net Effect on General Revenue Fund	\$0	\$0 or \$2,000,838,114	\$0 or \$2,000,801,361

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>Other</u> 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 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	0	2	2
Total Estimated Net Effect on FTE	0	2	2

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** stated that a number of bills are considered each year by the General Assembly that would require statewide elections to allow the voters to decide the issues in the legislation. State statutes require the SOS to be provided with \$4.3 million in general revenue core funding to handle such special elections. The appropriation had historically been an estimated appropriation because the final cost each year is dependent upon the number of special elections required to fill vacant legislative seats and the number of ballot measures approved by the General Assembly. However, in recent years an estimated appropriation has only been provided in presidential primary years. Therefore, the SOS assumes for the purposes of this fiscal note that it should have the full appropriation authority it needs to meet these special election costs. However, we reserve the right to request funding if needed to meet these mandatory requirements.

Also, in response to similar proposals, 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 **Office of Administration, Administrative Hearing Commission** assume this proposal would have no fiscal impact on their organization.

ASSUMPTION (continued)

Officials from the **University of Missouri, Economic Policy Analysis and Research Center** (EPARC) assume this proposal would change individual tax brackets and rates as well as include additional tax credits, and would eliminate the federal income tax liability deduction.

The number of brackets would increase from ten to twelve in the following manner:

Not over \$2,000	... 1.5% of Missouri taxable income
Over \$2,000 but not over \$4,000	... \$30 plus 2.5% of excess over \$2,000
Over \$4,000 but not over \$6,000	... \$80 plus 3.5% of excess over \$4,000
Over \$6,000 but not over \$8,000	... \$150 plus 4.5% of excess over \$6,000
Over \$8,000 but not over \$10,000	... \$240 plus 5.5% of excess over \$8,000
Over \$10,000 but not over \$12,000	... \$350 plus 6.25% of excess over \$10,000
Over \$12,000 but not over \$14,000	... \$475 plus 6.75% of excess over \$12,000
Over \$14,000 but not over \$16,000	... \$610 plus 7.25% of excess over \$14,000
Over \$16,000 but not over \$18,000	... \$755 plus 7.5% of excess over \$16,000
Over \$18,000 but not over \$20,000	... \$905 plus 8.25% of excess over \$18,000
Over \$20,000 but not over \$50,000	... \$1,070 plus 8.5% of excess over \$20,000
Over \$50,000	... \$3,620 plus 9% of excess over \$50,000

The proposal would also allow the taxpayer to claim a credit for themselves, their spouse, and dependents, and a credit based on their filing status and the amount of their Federal adjusted gross income. In addition, the proposal would eliminate the federal income tax liability deduction.

EPARC projected that these changes would increase personal income tax revenues from the Missouri (2007) baseline Net Tax Due of \$4,734.9 million to an estimated \$6,735.8 million, an increase of \$2,000.9 million.

Oversight will use the EPARC estimate of fiscal impact to the state.

ASSUMPTION (continued)

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this proposal would have no fiscal impact on their organization. BAP officials stated that proposal would modify the individual income tax structure in Missouri, raising the top marginal rate from 6% (on income above \$9000) to 9% (on income above \$50,000), eliminating the deduction for federal income taxes paid, and creating a refundable tax credit. These changes would increase general and total state revenues by a significant amount, but BAP defers to EPARC for an estimate.

Officials from the **Department of Revenue** (DOR) assume this proposal would change the Missouri Individual Income Tax Rate Table as of January 1, 2010. In addition, the Missouri deduction for an individual's federal tax liability would be eliminated but the filer would be allowed refundable credits against the Missouri individual income tax otherwise due. DOR would promulgate rules to implement the provisions of the proposal.

Modifications to the withholding tax tables and formulas would be required. Modifications to tax forms would be required in order to add a line to account for the new credit, and not require the completion of a MO-TC form. Significant modifications to the MINITS system would be required for years 2010 and beyond.

The proposal would be submitted to the voters on the Tuesday immediately following the first Monday in November, 2009.

DOR estimated the administrative impact of the proposal as follows.

Personal Tax would require two Temporary Tax Employees for key entry, one FTE Revenue Processing Technician I (Range 10, Step L) per 19,000 returns verified, and one FTE Revenue Processing Technician I (Range 10, Step L) per 2,400 pieces of correspondence. Collections and Tax Assistance would require one FTE Tax Collection Technician I (Range 10, Step L) for every additional 15,000 contacts annually on the delinquent line, one FTE Tax Collection Technician I (Range 10, Step L) for every additional 24,000 contacts annually on the non-delinquent line, and one FTE Revenue Processing Technician I (Range 10, Step L) for every additional 4,800 contacts annually in the tax assistance offices.

DOR officials submitted an estimate of the cost to implement the proposal including five additional employees and related equipment and expenditures totaling \$206,460 for FY 2010, \$221,978 for FY 2011, and \$228,638 for FY 2012.

ASSUMPTION (continued)

Oversight notes that DOR provided an estimate of fiscal impact for a similar proposal in the previous session (HB 2131, LR 4711-01) which indicated that proposal could be implemented with two additional employees. Oversight will assume for fiscal note purposes that DOR could implement this proposal with two additional employees. Oversight has, for fiscal note purposes only, changed the starting salary for the additional positions to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expenditures in accordance with OA budget guidelines. Finally, Oversight assumes that a limited number of additional employees could be accommodated in existing office space.

DOR officials also provided this estimate of the IT cost to implement the proposal.

Officials from the **Office of Administration, Information Technology Services Division** (ITSD/DOR) estimated that the IT portion of this request could be implemented using two FTE existing CIT III for two months for system modifications to the MINITS system at a total cost of \$17,764. ITSD/DOR officials assume the proposal could be implemented using existing resources. If priorities shift, additional FTE or overtime would be needed.

If this proposal is approved by the voters in November, 2009, it would become effective for tax years beginning January 1, 2010 and would be reflected in returns filed beginning January 2011 (FY 2011). Oversight assumes the fiscal impact to DOR in January 2010 would be limited to that effort needed to revise withholding tables and create regulations to implement the proposal. For fiscal note purposes, Oversight will indicate the administrative fiscal impact to DOR beginning in January 2011.

Oversight notes that this proposal would be implemented only if the voters approved it in the General election to be held in November 2009, or in a special election to be called by the governor for that purpose. Accordingly, the impact for fiscal note purposes will be shown as \$0 or the impact estimated above.

<u>FISCAL IMPACT - State Government</u>	FY 2010	FY 2011 (6 Mo)	FY 2012
GENERAL REVENUE FUND			
<u>Revenue increase</u> - tax system revision	<u>\$0</u>	<u>\$0 or</u> <u>\$2,000,900,000</u>	<u>\$0 or</u> <u>\$2,000,900,000</u>
<u>Cost</u> - Department of Revenue			
Personal Service (2 FTE)	\$0	\$0 or (\$31,411)	\$0 or (\$65,169)
Fringe Benefits	\$0	\$0 or (\$15,275)	\$0 or (\$31,692)
Expense and Equipment	<u>\$0</u>	<u>\$0 or (\$15,200)</u>	<u>\$0 or (\$1,778)</u>
Totals	<u>\$0</u>	<u>\$0 or (\$61,886)</u>	<u>\$0 or (\$98,639)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>\$0 or</u> <u>\$2,000,838,114</u>	<u>\$0 or</u> <u>\$2,000,801,361</u>
Estimated Net FTE Effect on General Revenue Fund	0	2	2
<u>FISCAL IMPACT - Local Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
	<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.

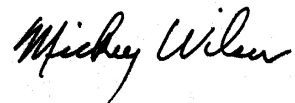
FISCAL DESCRIPTION

This proposal would change the laws regarding the Missouri individual income tax.

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
Office of Administration
 Administrative Hearing Commission
 Division of Budget and Planning
Department of Revenue
University of Missouri
 Economic Policy Analysis and Research Center

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
February 17, 2009