

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4390-01
Bill No.: HB 2301
Subject: Taxation and Revenue - Income, Revenue Dept.
Type: Original
Date: March 24, 2010

Bill Summary: Would change the Missouri resident income tax to 6% of the amount over \$4,000.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	\$0	(\$53,000,000)	(\$53,000,000)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$53,000,000)	(\$53,000,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on FTE	0	0	0

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 2011	FY 2012	FY 2013
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

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 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, Division of Budget and Planning** did not respond to our request for information.

Officials from the **Department of Revenue (DOR)** assume this proposal would modify the current individual income tax rates. There would be no tax on income of \$4,000 or less, and income over \$4,000 would be taxed at six percent (6%). DOR and OA-ITSD (DOR) would need to make programming changes to the Missouri Individual Income Tax System (MINITS), and DOR would need to make forms changes.

DOR officials did not indicate any fiscal impact to their organization, but did include an estimate of the IT cost to implement the proposal.

The IT portion of the fiscal impact was estimated at \$8,904 based on 336 hours of programming changes to the individual income tax processing system.

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of normal activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

ASSUMPTION (continued)

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume this proposal would modify the individual income tax rates. Specifically, it would reduce the number of tax brackets to two. There would be no tax on Missouri taxable income of four thousand dollars or less, and the tax on Missouri taxable income in excess of four thousand dollars would be six percent of the amount over four thousand dollars.

The EPARC simulation of individual income tax for Missouri (2008) as a baseline was \$4,676.5 million and the simulation based on the proposed rates was \$4,623.5 million, a reduction of \$53 million.

Oversight will use the EPARC estimate of revenue impact, and indicate a revenue reduction of \$53 million per year for this proposal. Since this proposal would become effective for tax years beginning on January 1, 2011, the proposal would first have an impact on tax returns for 2011 filed in 2012 (FY 2012). Although there could be some impact to FY 2011 if withholding tables are revised, a full year impact will be indicated for FY 2012 since most of the impact would be reflected on the actual tax returns filed.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE FUND			
<u>Revenue reduction - tax rate changes</u>	<u>\$0</u>	<u>(\$53,000,000)</u>	<u>(\$53,000,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$53,000,000)</u>	<u>(\$53,000,000)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
	<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

The proposed legislation would change the Missouri resident income tax to 6% of the amount over \$4,000.

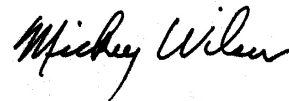
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Department of Revenue
University of Missouri
Economic and Policy Analysis Research Center

NOT RESPONDING

Office of Administration
Division of Budget and Planning



Mickey Wilson, CPA
Director
March 24, 2010