

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5316-01
Bill No.: HB 1484
Subject: Revenue Dept.; Taxation and Revenue - General
Type: Original
Date: February 14, 2012

Bill Summary: This proposal would authorize the Department of Revenue to use technology to make processes more efficient.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	\$0	More than \$100,000	More than \$100,000
Total Estimated Net Effect on General Revenue Fund	\$0	More than \$100,000	More than \$100,000

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Conservation Commission	\$0	Unknown	Unknown
State Road	\$0	More than \$100,000	More than \$100,000
State Transportation	\$0	More than \$100,000	More than \$100,000
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	More than \$100,000	More than \$100,000

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
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 2013	FY 2014	FY 2015
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

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 Secretary of State's Office 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 **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Department of Revenue (DOR)** assume this proposal would result in significant savings for their organization.

Most of the sections included in this legislation will require OA-ITSD programming. Because some of the programming can be phased in over time and some of the requirements will be completed through the implementation of the Department's integrated tax system, a specific dollar impact is not available.

ASSUMPTION (continued)

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of 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.

This proposal would create the "Paperless Documents and Forms Act". Beginning January 1, 2013, the Department of Revenue would begin to develop and implement a method by which all DOR documents and forms for public use, as well as records, reports, returns, or other documents relating to taxes and fees are made available in an electronic format online and are capable of electronic submission to DOR. Full implementation of the system would be required by January 1, 2019.

The proposal would authorize DOR to collect e-mail address for customers and obtain their consent to transmit notices by electronic mail. This would allow a variety of notices to be electronically sent to Missouri citizens. A number of classes of filers and tax return preparers would be required to file all forms electronically, with a penalty for failure to file electronically.

DOR officials stated that a significant part of a comprehensive electronic filing system is already in place.

- * Currently, 89% of Missouri individual income tax filers use electronic filing, or file returns with a bar code. Although the Department does not have data on how many practitioners already file returns electronically or using a form with a bar code, an increase of 100,000 electronic and 100,000 bar code returns could save DOR nearly \$100,000 in costs for tax season temporary employees due to the reduction in data entry effort for paper returns.

In addition, DOR officials noted that the error rate for electronic returns is 13% lower than for paper forms, and the error rate for bar code returns is 7% lower than for paper forms. Reduced error rates reduce the manual review effort by quality review staff. For every 19,000 fewer returns with an error, DOR could reduce quality review staffing by 1 FTE; or DOR could reassign that staff to a revenue generating position.

ASSUMPTION (continued)

- * Currently, 14% of corporate filers use electronic filing. For every 24,960 additional electronic returns received, DOR could save one (1) FTE in data entry staff. For every 7,800 fewer returns with an error that require a manual review, DOR could reduce quality review staffing by one (1) FTE; or DOR could reassign staff to a revenue generating position.
- * DOR officials stated that electronic filing for Withholding Tax and Sales Tax would reduce processing and printing costs by approximately \$51,500. Increased numbers of returns filed electronically would reduce the number of returns manually entered into the system. DOR officials estimated that up to 240,000 electronic returns could be received a year, which could result in a reduction of six (6) FTE (\$136,080).
- * In 2011, approximately \$19.6 million was paid to filers in timely filing discounts for motor fuel excise taxes. Some part of that would be lost to filers which do not file electronically.
- * The proposal would result in reduced expenditures resulting for postage; the savings would depend on the level of participation in an electronic notification system. DOR officials assume 25% of customers would participate, providing estimated annual savings of \$963,000.
- * DOR officials projected savings for postage, forms, and envelopes of \$128,198 if 25% of customers opted to receive drivers license notifications by email.
- * DOR officials projected savings for postage, forms, and envelopes of \$345,208 if 25% of customers opted to receive notifications by email, and additional savings of \$489,376 if 25% of filers opted to receive overpay and tax delinquency notices by email. Additional savings would be realized if electronic notification of refund and other tax information could reduce telephone calls and correspondence, allowing staff to focus on collecting additional revenue.

ASSUMPTION (continued)

For fiscal note purposes, **Oversight** will indicate annual savings in excess of \$100,000 to the General Revenue Fund, the State Road Fund, and the State Transportation Fund, and unknown savings to the Conservation Commission Fund. Oversight assumes that savings could be achieved beginning in FY 2014. Oversight also assumes these process changes could eventually allow staff reductions at the Department of Revenue; alternatively, staff could be redirected to improve collection efforts. Oversight will not include staff reductions in this fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
GENERAL REVENUE FUND			
<u>Savings - Department of Revenue</u>			
Electronic filing and notification systems	<u>\$0</u>	<u>More than \$100,000</u>	<u>More than \$100,000</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>More than \$100,000</u>	<u>More than \$100,000</u>
CONSERVATION COMMISSION FUND			
<u>Savings - Department of Revenue</u>			
Electronic filing and notification systems	\$0	Unknown	Unkown
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>\$0</u>	<u>Unknown</u>	<u>Unknown</u>

STATE ROAD FUND

<u>Savings</u> - Department of Revenue			
Electronic filing and notification systems	\$0	<u>More than</u> <u>\$100,000</u>	<u>More than</u> <u>\$100,000</u>
ESTIMATED NET EFFECT ON STATE ROAD FUND	\$0	<u>More than</u> <u>\$100,000</u>	<u>More than</u> <u>\$100,000</u>

STATE TRANSPORTATION FUND

<u>Savings</u> - Department of Revenue			
Electronic filing and notification systems	\$0	<u>More than</u> <u>\$100,000</u>	<u>More than</u> <u>\$100,000</u>
ESTIMATED NET EFFECT ON STATE TRANSPORTATION FUND	\$0	<u>More than</u> <u>\$100,000</u>	<u>More than</u> <u>\$100,000</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
	<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

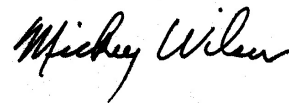
This proposal would authorize the Department of Revenue to use technology to make processes for filing certain forms and sending certain notifications more efficient.

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

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SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
Department of Revenue

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

Mickey Wilson, CPA
Director
February 14, 2012

SS:LR:OD