

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4672-01  
Bill No.: HB 1224  
Subject: Employees - Employers; Taxation and Revenue - Income; Revenue Department  
Type: Original  
Date: January 21, 2014

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Bill Summary: This proposal would change the withholding tax filing requirements for certain small businesses.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	(Unknown)	\$0	\$0
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(Unknown)</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
<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 7 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</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 FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

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).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### Section 143.221, RSMo. - Withholding Tax Filing Requirement

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 **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would not result in any additional costs or savings to their organization.

BAP officials noted this proposal would increase the threshold for annual withholding filers from \$20 to \$100. Withholding taxes that would have otherwise been collected on a quarterly basis in April, July, and October would be delayed until January. This proposal would not directly impact Total State Revenues in the aggregate, but could have a cash flow impact across fiscal years.

Assuming the bill would become effective Aug. 28, 2014, quarterly payments due in October 2014 would instead be remitted in January 2015. This would have no cash effect overall for FY 2015, though timing of payments are different. However, quarterly payments due in April and July of 2015 would not arrive until January 2016. Therefore, revenue collections would be reduced in FY 2015, but the payments in FY 2016 would be increased by similar amounts. Further, similar patterns would follow in subsequent years.

Department of Revenue (DOR) officials informed BAP that about 6,500 businesses would be impacted by this proposal. BAP defers to DOR for estimated withholding amounts.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** assume this proposal would raise the quarterly aggregate amount required to file a withholding return from \$20 to \$100.

Fiscal impact

DOR officials assume this proposal would not reduce Total State Revenue, but would delay the collection of withholding taxes. This legislation would impact approximately 3,500 businesses that would currently file and pay withholding in April, July, and October could now delay the remittance of their withholding taxes until January of the following year.

Assuming the state could earn a five percent rate of interest, this proposal could Reduce Total State Revenue by \$17,500 annually.

Administrative impact

The DOR response did not include any estimate of administrative cost involved in implementing this proposal and **Oversight** assumes any administrative costs would be minimal and could be absorbed with existing resources.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$1,092 based on 40 hours of programming to make changes to DOR systems.

**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.

Officials from the **Joint Committee on Administrative Rules** assume the proposal would have no fiscal impact on their organization.

ASSUMPTION (continued)

**Oversight** assumes this proposal would allow certain employers to delay filing and paying withholding taxes, which are currently due on a quarterly basis, until the following January 31. The amount of tax due and the overall amount of revenue for a tax year would not change; however, implementing this proposal could delay receipt of withholding taxes as explained below.

- \* Taxes withheld for the third calendar quarter ending September 30, 2014 are currently filed and paid by October 31, 2014 (FY 2015); the proposal would include those taxes in an annual filing due January 31, 2015 (FY 2015). Those taxes would be received in the same fiscal year as currently required, although filing and payment of those funds would be delayed three months. For fiscal note purposes there would be no impact from that delay.
- \* Taxes withheld for the fourth calendar quarter ended December 31, 2014 would be paid January 31, 2015 (FY 2015) as currently required.
- \* Taxes withheld for the first calendar quarter ending March 31, 2015 would currently be required to be filed and paid by April 30, 2015 (FY 2015). The proposal would include those taxes in an annual filing due January 31, 2016 (FY 2016). That delay would be permanent, as each year's first quarter withholding taxes would be paid the following state fiscal year.
- \* Taxes withheld for the calendar quarters ending June 30, 2015 currently required to be filed and paid by July 31, 2015 and September 30, 2015 currently required to be filed and paid by October 31, 2015 (FY 2016) would be paid by January 31, 2016 (FY 2016). Those taxes would also be paid in the same fiscal year as currently required but would be delayed six months and three months, respectively, as compared to current requirements.
- \* Based on the number of filers provided by the Department of Revenue, the amount of first calendar quarter withholding taxes delayed over the end of a state fiscal year could range from (3,500 filers x the current \$20 threshold ) = \$70,000 to (3,500 filers x the new \$100 threshold) = \$350,000.

ASSUMPTION (continued)

For fiscal note purposes, **Oversight** will indicate an unknown revenue reduction for FY 2015 due to first calendar quarter withholding taxes which would be remitted in January, 2016 (FY 2016) rather than April 2015 (FY 2015).

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
<b>GENERAL REVENUE FUND</b>			
<u>Additional revenue</u> - previous year withholding taxes paid			
Section 143.221, RSMo	\$0	Unknown	Unknown
<u>Revenue reduction</u> - delayed filing and payment of withholding taxes			
Section 143.221, RSMo	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(Unknown)</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which could delay filing and paying withholding taxes.

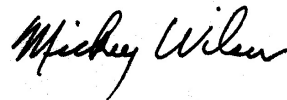
### FISCAL DESCRIPTION

This proposal would change the amount of payroll tax withholding for annual filing. Currently, an employer is allowed to file an annual withholding tax return instead of four quarterly returns when the aggregate amount withheld is less than \$20 in each of the four preceding quarters. The proposal would change the amount to less than \$100 in each of the four preceding quarters if the employer is not otherwise required to file a withholding return on a quarterly or monthly basis.

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  
Joint Committee on Administrative Rules  
Office of Administration  
    Division of Budget and Planning  
Department of Revenue



Mickey Wilson, CPA  
Director  
January 21, 2014

Ross Strobe  
Assistant Director  
January 21, 2014