

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0341-01
Bill No.: SB 40
Subject: Tax Credits; Taxation and Revenue - Income
Type: Original
Date: January 14, 2015

Bill Summary: This proposal would create a Missouri earned income tax credit.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	(\$221,555,000)	(\$221,555,000)	(\$221,555,000)
Total Estimated Net Effect on General Revenue	(\$221,555,000)	(\$221,555,000)	(\$221,555,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would authorize a refundable Earned Income Tax Credit (EITC) to resident taxpayers in an amount equal to 20% of the federal EITC. BAP officials provided information from the IRS Statistics of Income for Tax Year 2012, indicating Missouri taxpayers claimed \$1.222 billion in federal EITC and noted that would imply a 20% Missouri credit would reduce Total State Revenues by \$244.5 million. Further, because this proposal would apply to tax years beginning January 1, 2015, the proposal would reduce tax revenues beginning in FY 2016. BAP officials noted the Department of Revenue may have more precise information.

Officials from the **Department of Revenue (DOR)** stated this proposal would create the Missouri Earned Income Tax Credit Act. Beginning January 1, 2015, individuals could receive a credit of 20 percent of the allowable federal EITC against individual income taxes due.

Fiscal impact

DOR officials noted 530,692 Missouri taxpayers claimed federal EITC totaling \$1,215,416,612 in 2012 and assume if each taxpayer received a credit equal to 20 percent of the federal credit, the total reduction in tax would be \$243,083,322 in the first year the credit is authorized.

DOR officials also noted the legislation would require the Department to contract with one or more nonprofit groups to provide notice of the credit to eligible taxpayers, and to prepare an annual statistical report regarding the tax credits issued.

Administrative Impact

DOR officials assume Personal Tax would require four additional Temporary Tax Employees for key-entry, four additional Revenue Processing Technicians I for verification of returns, correspondence and compliance assurance once Taxation processes the return, and one additional Management Analyst Specialist II to manage reporting and contract requirements.

ASSUMPTION (continued)

DOR officials assume Collections and Tax Assistance (CATA) would require two additional Tax Collections Technicians I for contacts on the delinquency and income tax phone lines; the new technicians would require CARES phone systems.

The DOR estimate of administrative cost for this proposal including four additional temporary employees and seven additional full time employees with related benefits, equipment, and expense totaled \$337,720 for FY 2016, \$356,245 for FY 2017, and \$359,926 for FY 2018.

Oversight notes this proposal would implement a state tax EITC program based on and dependent on the federal EITC program. Oversight assumes this proposal would change a limited number of computations on individual income tax returns and assumes the proposal would not have an impact on the number of returns filed. Oversight notes a high percentage of income tax returns are prepared online, electronically, or by paid preparers, and assumes there would not be a significant number of additional errors resulting from the changes in this proposal.

Oversight therefore assumes existing DOR staffing would be adequate to implement this proposal. If unanticipated additional costs are incurred or if multiple proposals are implemented that increase DOR costs or the workload for DOR employees, resources could be requested through the budget process.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$75,573 based on 1,008 hours of programming to make changes to DOR systems.

Oversight notes the DOR estimate of IT cost for a similar proposal in the previous session was \$27,518 for the same number of hours. DOR officials told us that OA-ITSD prepared all cost estimates for the 2015 Legislative Session based on the assumption ITSD programmers would not be available to implement new legislation and that work would require contract programmers.

ASSUMPTION (continued)

Oversight will assume for fiscal note purposes only this proposal could be implemented with existing OA-ITSD (DOR) staff. Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year and 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 budget process.

Officials from the **University of Missouri - Economic and Policy Analysis Research Center (EPARC)** assume this proposal would, if enacted, create the Missouri Earned Income Tax Credit Act, authorizing a Missouri individual income tax credit equal to 20% of any EITC claimed by the taxpayer on the federal income tax return.

EPARC officials provided a baseline simulation using the most recent Missouri individual income tax data for 2013 and stated that the General Tax Credits amount was \$169.128 million. EPARC officials noted the simulation including the EITC indicated the General Tax Credits amount would increase to \$390.683 million, a difference of \$221.555 million.

EPARC officials assume that \$54.499 million of this increase would be represented by the reduction in Net Tax Due from the baseline \$5,124.717 million to \$5,070.218 million, and the remaining \$167.056 million would be refunded to taxpayers.

Oversight will use the EPARC estimate of revenue reduction for this proposal. This proposal would be effective January 1, 2015 and would have a fiscal impact beginning in January, 2016 (FY 2016) when 2015 tax returns would be filed.

Oversight is aware that taxpayers could adjust their estimated tax payments or withholding in anticipation of reduced taxes; however, for fiscal note purposes, Oversight will indicate the entire first year fiscal impact for this proposal in the fiscal year in which the first tax returns affected by the proposal would be filed.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State (SOS)** stated many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. SOS officials noted their office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session.

SOS officials assume the fiscal impact of this proposal for Administrative Rules is less than \$2,500 and recognize this is a small amount, and do not expect additional funding would be required to meet these costs. However, SOS officials also recognize that many such bills may be passed by the General Assembly in a given year and collectively the costs may greater than 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 this proposal would not have a fiscal impact to their organization in excess of existing resources.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE FUND			
<u>Revenue reduction</u>			
Earned income tax credit	<u>(\$221,555,000)</u>	<u>(\$221,555,000)</u>	<u>(\$221,555,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$221,555,000)</u>	<u>(\$221,555,000)</u>	<u>(\$221,555,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
	<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.

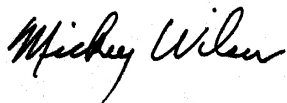
FISCAL DESCRIPTION

This proposal would create a refundable Missouri earned income tax credit equal to 20% of the taxpayer's federal earned income tax credit. Taxpayers would be eligible for the credit beginning January 1, 2015, and no credits could be authorized after 2021. The Department of Revenue would be required to contract with a nonprofit group to provide notice of the credit to eligible taxpayers, and would be required to prepare a report on issuances of the credit.

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
University of Missouri
 Economic and Policy Analysis Research Center



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January 14, 2015

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January 14, 2015