

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0472-01  
Bill No.: HB 114  
Subject: Taxation and Revenue - Income; Federal - State Relations; Revenue Department  
Type: Original  
Date: January 12, 2015

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Bill Summary: This proposal would, beginning January 1, 2016, increase the individual income tax deduction limit for federal income tax liability from \$5,000 to \$10,000 for single taxpayers and from \$10,000 to \$20,000 for taxpayers filing combined returns.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	\$0	(\$154,126,000)	(\$154,126,000)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>(\$154,126,000)</b>	<b>(\$154,126,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
<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 6 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</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 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

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

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** noted this proposal would double the current individual deductions for federal taxes paid, to \$10,000 for individual and head-of-household filers and \$20,000 for joint filers. Based on 2012 data, BAP officials estimate this would reduce Total State Revenues by \$154.5 million annually. BAP officials also noted this proposal would be effective for 2016, and assume taxpayers would adjust withholdings and declarations as early as January 2016. BAP officials estimated this would reduce Total State Revenues by \$55.6 million in FY 2016, and also assume the numbers may vary in the future due to the impact of SB 509 (2014).

**Oversight** is aware that filers may choose to reduce their tax withholding or estimated tax payments in anticipation of reduced taxes, and assumes this could reduce revenues a year in advance of the fiscal year when income tax returns are filed. For fiscal note purposes, however, Oversight will indicate the full fiscal impact of the tax changes beginning when income tax returns are filed for 2016 beginning in January 2017 (FY 2017).

Officials from the **Department of Revenue (DOR)** assume the proposed increase in the maximum amount an individual may deduct for their federal income tax liability would create a negative impact on Total State Revenue of \$164.6 million.

### Administrative Impact

DOR officials assume Personal Tax would require form and programming changes, and Withholding Tax would require updates to tables, forms, and the DOR website.

DOR officials did not include any administrative costs in their response, and **Oversight** assumes DOR could implement this proposal with existing resources.

ASSUMPTION (continued)

IT impact

DOR officials provided an estimate of the IT cost for this proposal of \$37,827 in FY 2016 based on 504 hours of programming at \$75 per hour to make changes to DOR systems.

**Oversight** notes that DOR provided an estimate of the IT cost to implement a similar proposal in the previous session of \$13,759 for similar hours of programming at a much lower rate

Oversight assumes OA - ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight also 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 budget process.

Officials from the **University of Missouri - Economic and Policy Analysis Research Center (EPARC)** assume this proposal would, if enacted, increase the amount of federal income tax liability an individual may deduct to \$10,000 for single taxpayer returns and \$20,000 for combined returns for years beginning on or after January 1, 2016.

EPARC officials prepared a baseline simulation using the most recent data from 2013 and existing provisions. The baseline simulation indicated Net Tax Due would be \$5,124.717 million. The EPARC simulation using that same data, with the federal tax deduction increased to \$10,000 for individual filers and \$20,000 for combined filers indicated Net Tax Due would be \$4,970.591 million, a reduction of \$154.126 million.

**Oversight** will use the EPARC estimate of fiscal impact for this fiscal note beginning with FY 2017 when income tax returns for 2016 would be filed.

Officials from the **Office of the Secretary of State** and the **Joint Committee on Administrative Rules** assume this proposal would have no fiscal impact on their organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
<b>GENERAL REVENUE FUND</b>			
<u>Revenue reduction - increased federal income tax deduction</u>	<u>\$0</u>	<u>(\$154,126,000)</u>	<u>(\$154,126,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>\$0</u></b>	<b><u>(\$154,126,000)</u></b>	<b><u>(\$154,126,000)</u></b>

<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.

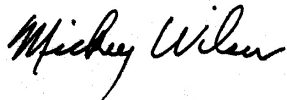
FISCAL DESCRIPTION

The proposed legislation would, beginning January 1, 2016, increase the maximum individual income tax deduction for federal income tax liability from \$5,000 to \$10,000 for single taxpayers and from \$10,000 to \$20,000 for taxpayers filing combined returns.

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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