

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4951-01
Bill No.: HB 1674
Subject: Taxation and Revenue - Income; Tax Incentives
Type: Original
Date: February 12, 2016

Bill Summary: This proposal authorizes a one-time income tax deduction to a taxpayer for the cost of the construction or \$5,000, whichever is less, of a storm shelter that was made in Missouri.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(\$37,584 to \$157,584)	\$0 to (\$120,000)	\$0 to (\$120,000)
Total Estimated Net Effect on General Revenue	(\$37,584 to \$157,584)	\$0 to (\$120,000)	\$0 to (\$120,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
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 2017	FY 2018	FY 2019
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** assume this proposal would allow taxpayers a deduction for the cost of constructing a storm shelter made in Missouri or \$5,000, whichever is less. The aggregate amount of deductions would be limited to two million dollars each fiscal year.

Fiscal impact

DOR officials noted the proposal could have a negative impact on Total State Revenue. If \$2 million in deductions are claimed, tax revenues would be reduced by approximately \$120,000.

DOR officials assume the department would be required to make form revisions and programming changes for the deduction. Personal Tax would require two additional Temporary Tax Employees for key entry and two additional Revenue Processing Technicians for error correction and correspondence. Also, Collections and Tax Assistance (CATA) would require two additional Tax Collection Technicians for contacts on the delinquent and non-delinquent tax lines and one additional Revenue Processing Technician for contacts to the field offices. **DOR** officials assume all technicians would require CARES equipment.

The **DOR** response included two additional Temporary Tax employees and four additional employees with related benefits equipment and expense totaled \$160,011 for FY 2017, \$198,056 for FY 2018, and \$199,702 for FY 2019.

Oversight notes this proposal would provide a maximum deduction for an individual filer of five thousand dollars with an aggregate maximum of two million dollars in deductions allowed each state fiscal year. The maximum overall revenue reduction for this proposal would be $(\$2,000,000 \times 6\%) = \$120,000$ per year. The deduction would be limited to $(\$5,000 \times 6\%) = \300 per filer and would be available on a first-come, first-served basis. Oversight assumes up to $(\$2,000,000 / \$5,000) = 400$ filers would be able to claim the deduction each fiscal year.

ASSUMPTION (continued)

Oversight does not have any information regarding the cost of a storm shelter nor the number of storm shelters constructed in Missouri. However, based on the limited amount of deductions available and the limited number of filers who could use this deduction, Oversight assumes these claims could be processed with existing resources. If unanticipated additional costs are incurred or if multiple proposals are implemented which increase the DOR workload, resources could be requested through the budget process.

IT impact

DOR officials provided an estimate of the IT impact to implement the proposal of \$37,584 based on 501 hours of programming at the standard state contract rate for IT services of \$75, to make changes to DOR systems.

Oversight will include the DOR estimate of IT cost to implement this proposal in the fiscal note.

Officials from the **Office of Administration - Division of Budget and Planning (B&P)** assume this proposal would reduce Total State Revenues (TSR) by \$120,000, and would impact the calculation required under Article X, Section 18(e) of the state constitution.

B&P officials noted this proposal would allow a one-time deduction for a storm shelter built in Missouri. An individual could deduct the cost of building the shelter or \$5,000 whichever is less, and there would be a deduction cap of \$2 million per year. Since deductions do not reduce taxes on a dollar for dollar basis, B&P officials estimated this will reduce TSR by $(\$2,000,000 \times 6\%) = \$120,000$, and B&P officials noted the numbers may vary in the future due to the impact of SB 509 (2014).

Oversight notes the changes in the maximum individual income tax rate in SB 509 (2014) are contingent on a revenue threshold which may or may not be reached, and will include an annual revenue reduction up to the B&P calculation in this fiscal note.

Oversight also notes the proposal would be effective beginning January 1, 2016 and will include the B&P estimate of fiscal impact for FY 2017, when 2016 income tax returns would be filed, and for FY 2018 and FY 2019. Oversight is aware that some filers would adjust their income tax withholding or estimated payments in anticipation of a tax reduction, but for fiscal note purposes will include the full impact in the year the tax returns would be filed.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State (SOS)** state 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 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, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS reserves 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.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Officials from the **Joint Committee on Administrative Rules** and the **Department of Public Safety** assume this proposal would have no impact on their respective organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE FUND			
<u>Cost - DOR</u>			
IT cost	(\$37,584)	\$0	\$0
<u>Revenue reduction</u> - additional deduction for storm shelter	\$0 to <u>(\$120,000)</u>	\$0 to <u>(\$120,000)</u>	\$0 to <u>(\$120,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(\$37,584 to <u>\$157,584</u>)	\$0 to <u>(\$120,000)</u>	\$0 to <u>(\$120,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
	<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.

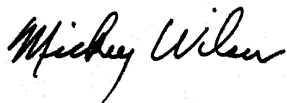
FISCAL DESCRIPTION

This proposal would, beginning January 1, 2016, authorize a one-time income tax deduction for the cost of the construction or \$5,000, whichever is less, of a storm shelter that was made in Missouri. The total amount of deductions, which would be issued on a first-come, first-served filing basis, could not exceed \$2 million in any fiscal year, and the provisions of the bill would expire December 31 six years after the effective date.

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

Department of Revenue
Office of Administration
 Division of Budget and Planning
Office of the Secretary of State
Joint Committee on Administrative Rules
Department of Public Safety



Mickey Wilson, CPA
Director
February 12, 2016

Ross Strope
Assistant Director
February 12, 2016