

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5993-01
Bill No.: HB 2315
Subject: Tax Credits, Department of Revenue, Taxation and Revenue - Income, Children and Minors
Type: Original
Date: February 19, 2018

Bill Summary: This proposal establishes a child tax credit.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	\$0	(\$398,300,000 to \$438,459,000)	(\$398,300,000 to \$438,459,000)
Total Estimated Net Effect on General Revenue	\$0	(\$398,300,000 to \$438,459,000)	(\$398,300,000 to \$438,459,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
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 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
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 2019	FY 2020	FY 2021
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal would create a child tax credit based on Missouri Adjusted Gross Income, starting with tax year 2019. The credit is non-refundable and cannot be assigned, transferred, or sold. The credit also has a sunset of six years. Based on 2015 tax year data, the most recent complete year available, and accounting for the federal tax changes that took effect on 1/1/2018, B&P estimates that this proposal will reduce Total State Revenue and General Revenue by \$398.3 million annually beginning in FY 2020.

Officials at the **Department of Revenue (DOR)** assume this proposed legislation implements a tax credit against the taxpayer's state tax liability beginning January 1, 2019, for having a qualifying child for each Missouri Adjusted Gross Income. The tax credit authorized under this section is non-refundable and shall not be assigned, transferred, or sold. The loss to General Revenue is estimated to be \$398.3 million annually.

Personal Tax Section requires one (1) Revenue Processing Technician I (\$26,340) for 14,700 errors created. Personal Tax requires one (1) Revenue Processing Technician I (\$26,340) for every 5,700 pieces of correspondence generated. The Corporate Tax Section requires one (1) Revenue Processing Technician I (\$26,340) for every 4,000 Child Tax Credits reviewed.

Oversight notes this proposal would allow a child tax credit on income tax returns, but would not be expected to have a significant impact on the number of returns filed. Oversight notes a significantly 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 assumes existing DOR staffing would be adequate to implement this proposal. If unanticipated additional cost 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.

Officials at the **University of Missouri's Economic and Policy Analysis Research Center** assume this legislation would create an income tax credit based on the number of taxpayer's dependent children contingent upon the level of the taxpayer's Missouri adjusted gross income. Specifically, a \$1,000 income tax credit per qualifying child will be available for taxpayers who earn a Missouri adjusted gross income of \$50,000 or less, a \$750 income tax credit per qualifying child will be available for taxpayers who earn a Missouri adjusted gross income greater than \$50,000 but less than \$75,001, a \$500 income tax credit per qualifying child will be available for

ASSUMPTION (continued)

taxpayers who earn a Missouri adjusted gross income greater than \$75,000 but less than \$100,001, and a \$250 income tax credit per qualifying child will be available for taxpayers who earn a Missouri adjusted gross income greater than \$100,000 but less than \$125,001.

Using the Net Tax Due from the latest 2016 individual income tax data as our baseline, we find it is equal to \$5,454.004 million. When we allow the aforementioned dependent children credit we find that Net Tax Due is reduced to \$5,015.545 million. This translates to a decrease in Net General Revenue of \$438.459 million.

Summary

BAP Estimate	DOR Estimate	EPARC Estimate
(\$398,300,000)	(\$398,300,000)	(\$438,459,000)

Oversight has no way to test the estimates provided by B&P, DOR and EPARC; therefore, we will range the impact from low to high.

Oversight notes the proposal sets the credit as follows:

<u>MO Adjusted Gross Income</u>	<u>Tax Credit Amount</u>
Less than/equal \$50,000	\$1,000
\$50,000 - \$75,000	\$750
\$75,000 - \$100,000	\$500
\$100,000 - \$125,000	\$250
Over \$125,000	\$0

Oversight notes the changes in this proposal would be effective beginning January 1, 2019, and the first income tax returns would be filed reflecting these changes in January, 2020 (FY 2020). Oversight is aware some filers would reduce their income tax withholding or their estimated tax payments in anticipation of a tax reduction but does not have information as to the impact of those adjustments. For fiscal note purposes, Oversight would include the revenue reductions in the year in which the affected tax returns would be filed; therefore, the first year this proposal would have an impact would be FY 2020.

Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

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.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
GENERAL REVENUE			
		(\$398,300,000	(\$398,300,000
		to	to
<u>Revenue Reduction</u> - creation of a child tax credit	<u>\$0</u>	<u>\$438,459,000)</u>	<u>\$438,459,000)</u>
		(\$398,300,000	(\$398,300,000
		to	to
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>\$438,459,000)</u>	<u>\$438,459,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
	<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 bill establishes a child tax credit (CTC), which would allow a taxpayer to claim a tax credit against the taxpayer's state liability for each qualified child. The CTC is non-refundable and cannot be claimed if the taxpayer does not have any tax liability.

This proposal contains a six year sunset.

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
Joint Committee on Administrative Rules
Office of Administration
Division of Budget and Planning
Office of the Secretary of State
University of Missouri's Economic and Policy Analysis Research Center

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