

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0681-01  
Bill No.: HB 174  
Subject: Taxation and Revenue - Income; Revenue Department  
Type: Original  
Date: January 28, 2015

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Bill Summary: This proposal would allow an exemption from state withholding taxes for state employees in a specified month to be determined by the Department of Revenue.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	\$0 or (\$5,000,000)	\$0	\$0
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0 or (\$5,000,000)</b>	<b>\$0</b>	<b>\$0</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 7 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)** provided the following response.

BAP officials noted this proposal would exempt "all employees of this state" from the withholding tax requirements for one month each year and assumes the phrase "all employees of this state" means "state employees".

BAP officials also noted that based on withholding receipts statewide, April, July, or October in any particular year could be the smallest month, and therefore might be the month exempted; however, BAP officials were not certain the general trend would also be the trend for "state employees".

Further, although an employee would be exempted from withholding tax for one month, their ultimate tax liability would remain the same. The overall cash impact to the employee would be neutral since the proposal would reduce the tax refund the employee would otherwise receive, or increase their tax remittance.

Similarly, the aggregate cash impact to the state would be \$0. However, if the month chosen for the exemption was April (or any of the first six calendar months), Total State Revenues would be reduced in that fiscal year, and increased by the same amount the following fiscal year as taxes are settled in the spring.

**Oversight** requested additional information from BAP, and BAP officials stated that average withholding for April over the last four years for state employees was \$5 million.

Oversight notes the proposal would be effective beginning January 1, 2016. If there was a \$5 million reduction in April 2016 withholding tax, it would result in a net reduction of revenue for the General Revenue Fund for FY 2016. That revenue would be recovered in FY 2017 through additional payments or reduced refunds when individual tax returns for 2016 are filed. The additional revenue in FY 2017 would be offset by a reduction in withholding in April 2017. If there was a \$5 million reduction in July 2016 or October 2016 (FY 2017) withholding tax, the additional payments or reduced refunds would still be realized in January 2017 when tax returns for 2016 are filed. In that case, there would be no net impact.

ASSUMPTION (continued)

**Oversight** will indicate a fiscal impact from \$0 (reduced withholding and additional payments or reduced refunds in the same fiscal year) or the \$5 million revenue reduction (reduced withholding in FY 2016 and reduced refunds or additional payments in FY 2017 for FY 2016 only.

Oversight assumes the same month would be selected each year and there would be no fiscal impact after FY 2016. If the Department of Revenue selected a different month after FY 2016, there could be a fiscal impact due to reduced withholding and tax return filing in a different fiscal year, but Oversight considers the resulting fiscal impact for that case speculative and will not include it in this fiscal note.

Officials from the **Department of Revenue (DOR)** also noted the proposal should not impact Total State Revenue; however, it would delay the collection of taxes which may have an impact on cash flow for the state.

Administrative impact

DOR officials assume Collections and Tax Assistance (CATA) would require two additional FTE Tax Collection Technicians I (Range 10, Step L) for additional contacts on the delinquent and non-delinquent tax lines. Each technician would require CARES equipment and license.

In total, the DOR response included two additional employees along with related benefits, equipment, and expense. The estimated cost amounted to \$81,729 for FY 2016, \$83,264 for FY 2017, and \$84,130 for FY 2018.

**Oversight** notes this proposal would merely change the amount of withholding for approximately 55,000 state employees for one month each year, and assumes any additional activity resulting from the change could be managed with existing resources. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the budget process.

ASSUMPTION (continued)

IT impact

DOR officials assume the Withholding Tax System would require changes to create a program to determine the lowest month withholding tax was paid by state employers. Also, changes would need to be made to mark just those state withholding accounts that are not required to file a return in a given month.

DOR officials provided an estimate of \$8,991 for 120 hours of programming to make the required changes in the Withholding Tax System.

**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 **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Office of Administration, Information Technology Services Division**, assume this proposal would have no impact on their organization.

Officials from the **Office of the Secretary of State (SOS)** noted that 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.

<u>FISCAL IMPACT - State Government</u>	FY 2016	FY 2017	FY 2018
<b>GENERAL REVENUE FUND</b>			
<u>Additional revenue</u>			
Previous year withholding taxes paid		\$0 or	\$0 or
Section 143.266	\$0	\$5,000,000	\$5,000,000
<u>Revenue reduction</u>			
Exemption from withholding taxes	\$0 or	\$0 or	\$0 or
Section 143.266	<u>(\$5,000,000)</u>	<u>(\$5,000,000)</u>	<u>(\$5,000,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>\$0 or (\$5,000,000)</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

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 allow an exemption from state withholding taxes for state employees in a specified month to be determined by the Department of Revenue.

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  
    Information Technology Services Division  
Department of Revenue



Mickey Wilson, CPA  
Director  
January 28, 2015

Ross Strobe  
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January 28, 2015