

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1166-01
Bill No.: HB 384 with SCA 1
Subject: Taxation and Revenue - General
Type: Original
Date: March 30, 2015

Bill Summary: This proposal would provide a limited period of tax amnesty.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	(\$12,556,047)	(\$19,210,272)	(\$11,500,000)
Total Estimated Net Effect on General Revenue	(\$12,556,047)	(\$19,210,272)	(\$11,500,000)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 15 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Tax Amnesty *	\$0	\$0	\$0
Conservation Commission	Unknown	\$0	\$0
Parks, and Soil and Water	Unknown	\$0	\$0
Other state	Unknown	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	Unknown	\$0	\$0

* Net of revenues and expenditures.

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	Unknown	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would create an amnesty from accrued penalties and interest on unpaid taxes, if taxes are appropriately filed and paid during a period from July 1, 2015, to September 30, 2015.

In response to a previous version of this proposal, BAP officials assumed that \$75 million in revenues would be collected, including \$50 million already identified from the Department of Revenue (DOR) investigations completed or in process. BAP officials also assumed 84.2% of collections would be General Revenue, based on the results of the amnesty program in FY 2003. BAP officials noted these estimates are based on income and sales tax liabilities; and a small amount of additional funds may be collected if other taxes collected by DOR, such as tobacco taxes, are included in the amnesty.

ASSUMPTION (continued)

BAP officials noted that under the original version of HB 384 any additional revenue from the amnesty program would have been deposited into the General Revenue Fund or the appropriate dedicated fund. SCA 1 would direct revenues (not otherwise dedicated to a specific fund) to a new state fund, the "Tax Amnesty Fund," and would specify that expenditures from this fund would be restricted to funding adult dental coverage and provider rate reimbursements.

BAP officials stated the amendment would have no impact on the previously reported impact to Total State Revenue or the 18(e) calculation. However, it would change the General Revenue impact, redirecting the additional estimated collections to a dedicated fund and actually reducing General Revenue.

BAP officials noted that even without tax amnesty DOR officials stated they believe they could have collected \$50 million through normal collection processes. Of this \$50 million, \$42.1 million would have been General Revenue. With SCA 1, those collections would be deposited into the new Tax Amnesty Fund shorting General Revenue \$11.4 million in 2016, \$19.2 million in 2017, and \$11.5 million in future years as shown below.

ASSUMPTION (continued)

BAP officials also assume the proposed amnesty would persuade taxpayers to settle accounts in a more timely fashion than is typical, and note this would create an additional positive cash flow impact in FY 2016, at the expense of payments that would have otherwise been received in later years. The BAP response included this chart of estimated fiscal impact, in millions of dollars.

Total State Revenue	Total	FY 2016	FY 2017	Subsequent Years
Amnesty collections	\$75.00	\$75.00	\$0.00	\$0.00
Normal collections	(\$50.00)	(\$13.60)	(\$22.80)	(\$13.60)
Difference	\$25.00	\$61.40	(\$22.80)	(\$13.60)
General Revenue	Total	FY 2016	FY 2017	Subsequent Years
Amnesty collections	\$0.00	\$0.00	\$0.00	\$0.00
Normal collections	(\$42.10)	(\$11.40)	(\$19.20)	(\$11.50)
Difference	(\$42.10)	(\$11.40)	(\$19.20)	(\$11.50)
Tax Amnesty				
Amnesty collections	\$63.20	\$63.20	\$0.00	\$0.00
Normal collections	\$0.00	\$0.00	\$0.00	\$0.00
Difference	\$63.20	\$63.20	\$0.00	\$0.00

ASSUMPTION (continued)

Oversight notes this proposal would require all collections, other than amounts designated in the constitution or by state law, to be deposited into the Tax Amnesty Fund. Oversight has no information as to the specific other types of taxes that would be collected, or the fund which would receive those collections. Oversight will indicate additional revenues for the state Tax Amnesty Fund of \$63,200,000 for FY 2016 and revenue reductions in the General Revenue Fund of \$11,400,000 for FY 2016, \$19,200,000 for FY 2017, and \$11,500,000 for FY 2018.

Oversight assumes the language of this proposal, as amended, would not result in a revenue reduction to local governments or to state funds other than the General Revenue Fund.

Oversight will, therefore, indicate unknown additional revenues for the Conservation Commission Fund and the Parks and Soils and Water Funds, which are designated in the state constitution, and for the School District Trust Fund, for other state funds which are designated by state law, and for local governments, for FY 2016.

Officials from the **Department of Revenue (DOR)** noted this legislation would grant amnesty from assessment or payment of penalties, additions to tax, and interest to taxes administered by the Department under chapters 32, 143, 144, and 147 from July 1, 2015 to September 30, 2015. Amnesty would apply to only those tax liabilities due or due but unpaid on or before December 31, 2014. The proposal includes an emergency clause. Other than those revenues earmarked by the Constitution of Missouri or Missouri statutes, collections would be deposited into the "Tax Amnesty Fund".

DOR officials assume this proposal could have a net positive impact on the newly created Tax Amnesty Fund of \$63.2 million and on Total State Revenue in fiscal year 2016 of up to \$72.8 million. DOR officials estimate that \$75 million in total funds (\$63.2 million Tax Amnesty Fund) may be received through amnesty, but \$50 million total funds (\$42.1 million Tax Amnesty Fund) would have been previously identified as outstanding liabilities by the Department. DOR officials also assume that an overwhelming majority of the \$50 million, plus interest and penalties, could be collected without amnesty. Because the Department has processes and personnel in place to collect delinquent taxes, the \$50 million is taken into consideration when the consensus revenue estimates are determined for fiscal year 16 and future fiscal years.

ASSUMPTION (continued)

As of March 19, 2015, the Department estimated 340,000 taxpayers would be eligible to participate in the amnesty program, and noted that the Department is identifying more non-filers and under-reporters each week for periods that would qualify for amnesty while other previously identified taxpayers are paying their amounts due, the number of eligible taxpayers will change over time.

DOR officials stated this proposal may increase state revenue in fiscal year 2016. Because the legislation includes known tax liabilities, some portion of the increase would reflect acceleration of the collection of liabilities that the Department would otherwise have collected after fiscal year 2016. The legislation would also reduce collection of interest and penalties that would have been paid in fiscal year 2016 and subsequent fiscal years, and may have the same effect on local sales and use tax interest and penalties.

DOR officials assume the proposal may impact the Department of Elementary and Secondary Education, the Department of Agriculture, and the Department of Health and Senior Services. The Department of Revenue deposits several of the taxes it collects into funds these agencies administer. The proposal could also affect local governments that impose sales or use tax.

Administrative Impact

DOR officials stated there are approximately 340,000 known taxpayers eligible for amnesty, and provided an estimate of cost for this program as follows.

Postage, envelopes and printing

The cost estimate is $340,000 \times \$0.555 = \underline{\underline{\$188,700}}$

Employee overtime

DOR officials estimate the Taxation Division would have costs for temporary employees and overtime for existing staff:

\$79,325 for existing staff to complete correspondence,
\$57,907 for existing staff to complete error corrections,
\$115,022 to key returns and payments, and
\$23,798 for customer contacts.

\$276,052 Total

ASSUMPTION (continued)

Advertising

DOR officials recommended an advertising budget of at least \$400,000, and stated that advertising the amnesty should enhance overall participation in the program and could also help ensure that individuals and businesses not already in contact with the Department about their tax liabilities participate in the program.

DOR officials stated the \$400,000 estimated advertising cost reflects the Department's advertising cost for the most recent previous amnesty, updated for current advertising rates.

IT cost

DOR officials provided an estimate of IT cost of \$200,229 based on 2,670 hours of contract programming at \$75 per hour in FY 2016 to make changes to DOR systems and \$10,262 based on 137 hours of contract programming in FY 2017 support.

DOR officials stated the tax amnesty program would not be considered as a part of the Department's computer programs for routine processing; rather, it would provide the specific functions required for collecting and processing nonrecurring revenues. In addition, the tax amnesty programming would include the tracking required to implement the extended compliance requirement for amnesty recipients.

DOR officials stated the proposed tax amnesty to could delay implementation of the Integrated Revenue System project to 2018 but did not provide an estimate of additional cost.

Oversight will assume for fiscal note purposes any delay in the Integrated System Project would not be directly related to this proposal and will not include any cost for that delay in this fiscal note.

ASSUMPTION (continued)

The DOR estimate of cost to implement the program is summarized in the following table.

Category	FY 2016	FY 2017
Overtime and temporary employees	\$276,052	\$0
Benefits	\$143,561	\$0
IT contractors	\$200,229	\$10,272
Letters	\$9,425	\$0
Envelopes	\$15,080	\$0
Postage	\$184,730	\$0
Advertising	<u>\$400,000</u>	<u>\$0</u>
Totals	<u>\$1,229,077</u>	<u>\$10,272</u>

ASSUMPTION (continued)

As shown below, **Oversight** will adjust the benefit rate to 25.55% per OA budget guidelines; otherwise, Oversight assumes the DOR estimate of cost to implement the tax amnesty program is the best available cost estimate and will use it in this fiscal note.

Category	FY 2016	FY 2017
Overtime and temporary employees	\$276,052	\$0
Benefits	\$70,531	\$0
IT contractors	\$200,229	\$10,272
Letters	\$9,425	\$0
Envelopes	\$15,080	\$0
Postage	\$184,730	\$0
Advertising	<u>\$400,000</u>	<u>\$0</u>
Totals	<u>\$1,156,047</u>	<u>\$10,272</u>

Officials from the **Department of Transportation (MoDOT)** assumed a previous version of this proposal would have a negative unknown impact on their organization from the forgiveness of a certain portion of tax debt for the sales tax paid on titling of motor vehicles. MoDOT officials stated the fiscal impact is unknown as MoDOT does not have data to analyze how many taxpayers would apply for amnesty associated with sales tax on motor vehicles and how many taxpayers would be granted the amnesty.

Officials from the **Department of Conservation (MDC)** assume this proposal would have an unknown positive fiscal impact greater than \$100,000 to the Department related to the amnesty program.

ASSUMPTION (continued)

MDC officials noted the Conservation Sales Tax funds result from a sales tax pursuant to the Missouri Constitution, and assume a portion of sales tax collected through the amnesty program could be deposited to the Conservation Fund. MDC officials assume the Department of Revenue would be better able to estimate the anticipated fiscal impact for this proposal.

Officials from the **Department of Natural Resources (DNR)** noted this proposal would authorize an amnesty from the assessment or payment of all penalties, additions to tax, and interest on delinquencies of unpaid taxes administered by the Department of Revenue which occurred on or prior to December 31, 2014. DNR officials assume the Department of Revenue and the Office of Administration - Division of Budget and Planning will provide a more detailed estimate of the potential fiscal impact for the program.

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. 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 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** assumed a previous version of this proposal would not have a fiscal impact to their organization in excess of existing resources.

<u>FISCAL IMPACT - State Government</u>	FY 2016	FY 2017	FY 2018
GENERAL REVENUE FUND			
<u>Cost - DOR</u>			
Tax amnesty program			
Section 32.383	(\$1,156,047)	(\$10,272)	\$0
<u>Revenue reduction</u>			
Tax amnesty program			
Section 32.383	<u>(\$11,400,000)</u>	<u>(\$19,200,000)</u>	<u>(\$11,500,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$12,556,047)</u>	<u>(\$19,210,272)</u>	<u>(\$11,500,000)</u>
TAX AMNESTY FUND			
<u>Additional revenue - tax amnesty</u>			
Section 32.383	\$63,200,000	\$0	\$0
<u>Additional expenditures - DOS</u>			
Section 32.383	<u>(\$63,200,000)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON TAX AMNESTY FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
CONSERVATION COMMISSION FUND			
<u>Additional revenue - tax amnesty</u>			
Section 32.383	<u>Unknown</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>Unknown</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - State Government</u> (Continued)	FY 2016	FY 2017	FY 2018
PARKS, AND SOIL AND WATER FUNDS			
<u>Additional revenue</u> - tax amnesty Section 32.383	<u>Unknown</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUNDS	<u>Unknown</u>	<u>\$0</u>	<u>\$0</u>
OTHER STATE FUNDS			
<u>Additional revenue</u> - tax amnesty Section 32.383	<u>Unknown</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	<u>Unknown</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Local Government FY 2016 FY 2017 FY 2018

LOCAL GOVERNMENTS

Additional revenue - tax amnesty
Section 32.383 Unknown \$0 \$0

**ESTIMATED NET EFFECT ON
LOCAL GOVERNMENTS** **Unknown** **\$0** **\$0**

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to a small businesses which qualified for the tax amnesty.

FISCAL DESCRIPTION

This proposal would authorize an amnesty from the assessment or payment of penalties, additions to tax, and interest on delinquencies of unpaid taxes administered by the Department of Revenue which occurred on or prior to December 31, 2014. A taxpayer would be required to apply for amnesty; pay the unpaid taxes in full between July 1, 2015, and September 30, 2015, and agree to comply with state tax laws for the next eight years from the date of the agreement.

If a taxpayer is granted amnesty, he or she would not be eligible to participate in any future amnesty for the same type of tax. All tax payments received from the tax amnesty program would be deposited into a Tax Amnesty Fund unless otherwise earmarked by state constitution or state law, and could only be spent for certain MO HealthNet programs. The proposal includes an emergency clause.

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 Conservation
Department of Natural Resources
Department of Revenue
Department of Transportation



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