

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1709-03  
Bill No.: HCS for HB 771  
Subject: Agriculture and Animals; Taxation and Revenue - General; Taxation and Revenue  
- Income  
Type: Original  
Date: April 13, 2015

Bill Summary: This proposal would provide an income tax exemption for certain agricultural disaster program payments.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	(Could exceed \$1,249,827)	(Could exceed \$606,000)	(Could exceed \$606,000)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(Could exceed \$1,249,827)</b>	<b>(Could exceed \$606,000)</b>	<b>(Could exceed \$606,000)</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 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)** assumed a previous version of this proposal would reduce Total State Revenues (TSR) by \$4.6 million and would impact the calculation required under Article X, Section 18(e) of the state constitution.

The amended proposal would allow a taxpayer to deduct from Missouri adjusted gross income any payments from a federal program that provides compensation to agricultural producers who have suffered losses due to a disaster or emergency. The amendment removed language from the proposal that included federal crop insurance in the payments that would be eligible for the deduction.

Using data provided by the United States Department of Agriculture, BAP officials estimated this would exempt as much as \$76.4 million in income. Since deductions do not reduce taxes on a dollar for dollar basis, BAP officials assume this would reduce TSR by  $(\$76,400,000 \times 6\%) = \$4.6$  million (rounded). Because the proposal would allow the deduction for 2014, the full impact in fiscal year 2016 could be as much as \$9.2 million since refund claims for 2014 as well as tax returns for 2015 would be filed in FY 2016. BAP officials also assume the revenue reduction numbers could also vary in the future due to the impact of SB 509 (2014).

**Oversight** notes the BAP estimate is based on an assumption that all such payments would be subject to the maximum personal income tax rate of 6% for FY 2016 and FY 2017, and a potentially reduced rate for FY 2018. Oversight also notes the reduced rate for 2017 returns filed in FY 2018 is contingent on net general revenue collections exceeding a net general revenue collections threshold which may or may not occur. Finally, some of the payments may be received by individuals who would be taxed at a lower rate due to total taxable income less than \$9,000.

In response to a previous version of this proposal would , officials from the **Department of Revenue (DOR)** assumed Personal Tax would require programming and form changes, and two additional Revenue Processing Technicians (Range 10, Step L) for additional correspondence and error correction.

ASSUMPTION (continued)

The DOR estimate of administrative cost to implement the proposal including two additional employees and the related benefits, equipment, and expense, was \$81,681 for FY 2016, \$84,086 for FY 2017, and \$84,960 for FY 2018.

**Oversight** notes this proposal would change a limited number of computations on a limited number of income tax returns and 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 costs 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.

IT impact

**DOR** officials also provided an estimate of the IT cost to implement the proposal of \$37,827 based on 504 hours of programming at the current state contract rate 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 **University of Missouri, Economic and Policy Analysis Research Center** provided a response which indicated the proposal would result in a revenue reduction up to \$850,000 per year based on a baseline simulation using the latest individual income tax data for 2013 and current provisions, and a second simulation using the same data and provisions with the exclusion of agricultural disaster program payments.

Officials from the **Office of the Secretary of State**, the **Joint Committee on Administrative Rules**, and the **Department of Agriculture** assumed a previous version of this proposal would not have a fiscal impact to their organizations.

ASSUMPTION (continued)

Oversight assumption

**Oversight** has obtained updated information from the United States Department of Agriculture which indicates the payments which would be eligible for this exemption would amount to approximately \$10.1 million per year. This would imply a revenue reduction of approximately  $(\$10,100,000 \times 6\%) = \$606,000$  per year.

**Oversight** notes the limited amount of federal payments which would be eligible for this exemption is due to the expiration of federal funding for certain programs for years after 2011. Individual federal programs could be re-authorized in the future and/or expanded which would increase the amount of payments eligible for this program and the resulting state revenue reduction.

Accordingly, Oversight will include the revenue reduction estimate calculated above for this proposal, and notes the revenue reduction could be more or less than the calculated amount in the future. Oversight assumes the fiscal impact in FY 2016 could include two years' refund claims since the proposal would allow the exemption for 2014 and 2015 on tax returns which would be filed in FY 2016.

**Oversight** also notes the potential exists for a reduction in the personal income tax rates for 2017, which would have a fiscal impact in FY 2018 when 2017 income tax returns are filed. The rate reduction is contingent on net general revenue collections for the state of Missouri exceeding a statutory threshold, which may or may not occur.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
<b>GENERAL REVENUE FUND</b>			
<u>Cost - DOR</u>			
Computer programming	(\$37,827)	\$0	\$0
<u>Revenue reduction</u>	(Could exceed	(Could exceed	(Could exceed
Tax exemption	<u>\$1,212,000)</u>	<u>\$606,000)</u>	<u>\$606,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b>(Could exceed <u>\$1,249,827)</u></b>	<b>(Could exceed <u>\$606,000)</u></b>	<b>(Could exceed <u>\$606,000)</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

This proposal would have a direct fiscal impact on businesses involved in agriculture which have received eligible disaster payments.

FISCAL DESCRIPTION

This proposal would provide an income tax exemption for payments in all tax years beginning on or after January 1, 2014 for income received as payment from any program which compensates agricultural producers who have received certain federal agricultural disaster or emergency payments.

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

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



Mickey Wilson, CPA  
Director  
April 13, 2015

Ross Strope  
Assistant Director  
April 13, 2015