COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4958-01
Bill No.: HB 1605
Subject: Taxation and Revenue - Income, Tax Credits
Type: Original
Date: February 9, 2016

Bill Summary: Authorizes an earned income tax credit.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	($113,336,613)	($56,637,000)	($56,637,000)
Total Estimated Net Effect on General Revenue	**($113,336,613)**	**($56,637,000)**	**($56,637,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on All 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 **Office of Administration - Division of Budget and Planning (B&P)** assume this proposal would authorize a non-refundable Earned Income Tax Credit (EITC) to resident taxpayers in an amount equal to 20% of the federal EITC. B&P officials provided information from the federal Internal Revenue Service (IRS) Statistics of Income for Tax Year 2013. B&P estimates that a non-refundable earned income tax credit will reduce Total State Revenue and General Revenue by $60.4 million annually.

B&P notes the effective date for the proposal is for taxable years beginning on or after January 1, 2015. Therefore the proposal would allow amended returns and could result in a doubling of the fiscal impact as amended returns claiming refunds are filed.

Officials from the **Department of Revenue (DOR)** assume this proposal creates the Missouri Earned Income Tax Credit Act beginning January 1, 2015. Individuals could receive a non-refundable credit against taxes due under Chapter 143, RSMo.

Fiscal impact

DOR officials noted that in 2013, 470,374 Missouri taxpayers claimed federal EITC totaling $1,120,745,775. Using these amounts and the total tax liability for those taxpayers, DOR determined that if each taxpayer receives a non-refundable credit equal to 20 percent of the federal credit, the total reduction in tax would be $60.4 million in the first year the credit is authorized. Because this legislation is retroactive, taxpayers would be able to amend 2015 returns due in 2016 to take advantage of the credit, doubling the potential negative impact in the first fiscal year.

DOR officials also noted the legislation would require the Department to contract with one or more nonprofit groups to provide notice of the credit to eligible taxpayers, and to prepare an annual statistical report regarding the tax credits issued.

Administrative Impact

DOR officials assume the Personal Tax section would require four (4) Temporary Tax Employees, (4) Revenue Processing Technicians I, and one (1) Management Analyst Specialist II.

DOR officials assume the Collections and Tax Assistance section would require two (2) Tax

ASSUMPTION (continued)

Collections Technicians I with both requiring CARES phone systems.

The **DOR** estimate of administrative cost for this proposal including four additional temporary employees and seven additional full time employees with related benefits, equipment, and expense totaled $360,595 for FY 2017, $366,495 for FY 2018, and $369,690 for FY 2019.

Oversight notes this proposal would implement a state tax EITC program based on and dependent on the federal EITC program. Oversight assumes this proposal would change a limited number of computations on individual income tax returns and assumes the proposal would not have a significant impact on the number of returns filed. Oversight also notes a 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 therefore 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 provided an estimate of the IT cost to implement this proposal of $62,613 based on 835 hours of programming to make changes to DOR systems.

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

Officials from the **University of Missouri - Economic and Policy Analysis Research Center (EPARC)** estimated the fiscal impact of this proposal by preparing a simulation of Net Tax Due using existing provisions and the most recent data from 2014 as a baseline. A second simulation using the same data and existing provisions, with the addition of the proposed tax credit, indicated Net Tax Due would be reduced from the baseline $5,563.753 million to $5,507.116 million, a reduction of $56.637 million.

EPARC officials noted the amount of General Tax Credits would be increased by $224.056 million, but the balance of credits would not reduce Net Tax Due since the proposed tax credit is not refundable.

ASSUMPTION (continued)

Oversight will use the EPARC estimate of fiscal impact for this proposal, and double the estimate for the first year due to the retroactive effective date of allowing for the filing of amended refund claims for tax year 2015.

Oversight is aware that taxpayers could adjust their estimated tax payments or withholding in anticipation of reduced taxes; however, for fiscal note purposes, Oversight will indicate the entire first year fiscal impact for this proposal in the fiscal year in which the first tax returns affected by the proposal would be filed.

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. SOS officials noted their office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session.

SOS officials assume the fiscal impact of this proposal for Administrative Rules is less than $2,500 and recognize this is a small amount, and do not expect additional funding would be required to meet these costs. However, SOS officials also recognize that many such bills may be passed by the General Assembly in a given year and 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** assume this proposal would have no impact on their organization beyond existing resources.

FISCAL IMPACT - State Government	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE FUND			
Cost - DOR			
Contract Programming	($62,613)	$0	$0
Revenue reduction			
Earned income tax credit	($113,274,000)	($56,637,000)	($56,637,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($113,336,613)**	**($56,637,000)**	**($56,637,000)**

FISCAL IMPACT - Local Government	FY 2017 (10 Mo.)	FY 2018	FY 2019
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This proposal establishes the Missouri Earned Income Tax Credit Act which authorizes, beginning January 1, 2015, an individual income tax credit equal to 20% of any earned income tax credit claimed by the taxpayer on his or her federal income tax return. Any credit that exceeds the taxpayer's liability in any tax year must be refunded to the taxpayer. The Department of Revenue must notify taxpayers who qualify for the credit and must contract with one or more nonprofit groups to contact non-English speaking individuals, elderly residents, tenants, and very low income individuals who do not file tax returns to notify them annually of the credit. The department must prepare an annual report containing the number of credits issued and claimed, the total amount of revenue expended, and the average value of the credits issued within certain income ranges.

The provisions of the bill will 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

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

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