COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3214-01
Bill No.: HB 1385
Subject: Disabilities; Taxation and Revenue - General and Income
Type: Original
Date: February 4, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	($1,478,865)	($6,118,496)	($6,047,459)
Total Estimated Net Effect on All State Funds	**($1,478,865)**	**($6,118,496)**	**($6,047,459)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 20054
Local Government	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this legislation creates a tax credit for taxpayers incurring costs for assistive technology and housing access modifications. Taxpayers with a federal adjusted gross income of less than $30,000 will receive a refundable credit equal to 100 % of the costs, not to exceed $2,500. Taxpayers with a federal adjusted gross income greater than $30,000 but less than $60,000 will receive a refundable credit equal to 50% of the costs, not to exceed $2,500. The credits cannot be claimed if the taxpayer has already deducted the costs from the taxpayer's federal adjusted gross income or have applied any other state or federal tax credit to such costs. The taxpayer must file the credit with the taxpayer's timely income tax return.

The number of taxpayers eligible for this tax credit is unknown at this time. The DOR does not have any employees with the expertise to determine whether or not a modification to the home is solely for the purpose of use by the person with the disability. Therefore, the DOR assumes the Division of Taxation will need a Revenue Manager full time to oversee the verification and approval of this tax credit unless the certification is moved to another department such as Health or Social Services. The Division of Taxation will need one Temporary Tax Season Employee for every 37,500 returns filed with this credit and one Tax Processing Tech I for every 3,000 pieces of correspondence received regarding the credit. The Division of Taxation will also need one Tax Processing Tech I for every 5,000 errors generated by this legislation. DOR anticipates enough credits will be filed to request one Temporary Tax Season Employee to process and verify the tax credit, one Tax Processing Tech I to process correspondence and one Tax Processing Tech I to correct any errors on the tax system. Any additional FTE will be requested through the normal budget process.

DOR assumes this legislation will require modifications to the individual income tax system. DOR estimates these modifications, including programming changes, will require 1,384 hours of overtime at a cost of $47,582. Modifications to the income tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of $9,007 is requested for implementation costs.

DOR did not provide an estimate of the revenue impact of this legislation.

Office of Administration, Budget and Planning (BAP) officials have not been able to find any empirical basis to estimate the fiscal impact of this proposal.

ASSUMPTION (continued)

Officials of the **Office of the Secretary of State (SOS)** assume this bill creates the Independence Tax Credit. DOR shall promulgate rules to implement this bill. These rules will be published in both the *Missouri Register* and the *Code of State Regulations*. Based on experience with other divisions, the rules, regulations and forms issued by DOR could require as many as 6 pages in the *Code of State Regulations*. For any given rule, roughly half again as many pages are published in the *Missouri Register* in the Code because cost statements, fiscal notes and the like are not repeated in the Code. These costs are estimated. The estimated cost of a page in the *Missouri Register* is $23. The estimated cost of a page in the *Code of State Regulations* is $27. The cost is estimated at $369. The actual cost could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded or withdrawn.

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 appropriations process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Department of Health (DOH)** and the **Department of Labor and Industrial Relations (DOL)** assume this proposal would not fiscally impact their agencies.

Oversight assumes there are no statistics available on how much assistive technology expenditures are in Missouri; therefore, national data is used. Based on Table 156 (Personal Health Care Expenditures by Object and Source of Payment: 1998) of the 2000 Statistical Abstract of the United States, the out-of-pocket payments for durable medical equipment were $8,191,000,000. Missouri is assumed to be 1.9% of the national total. Therefore, Missouri's share is $155,629,000. Assuming a 6% state income tax rate, the General Revenue Fund revenues would be reduced ($9,337,740) annually for the income deduction for durable medical equipment. By calculating the percentages of returns that fall within income classes of Missouri Adjusted Gross Income (MAGI) to total number of returns filed that tax year based on information from the 1999 Missouri Statistics of Individual Income, Oversight assumes the following:

MAGI Class		Deductibility of Credit		Credit Amount
$0 to $30,000	48.2%	100% deductible		$4,500,791
$30,000 to $60,000	30.3%	50% deductible		$1,414,668
over $60,000	21.5%	not deductible		$0
			Total	$5,915,459

Therefore, Oversight assumes the revenue loss for assistive technology and housing access modifications would be $5.9 million in FY04 and FY05. In addition, Oversight estimates a loss

ASSUMPTION (continued)

of $1.5 million to General Revenue for FY 2003 due to the possibility of reduced withholding and estimated income tax payments for five months of calendar year 2002 for the deduction for out-of-pocket expenses for durable medical equipment. Oversight assumes 25% of the taxpayers would adjust payments; however, it should be noted that this amount could be less, depending on taxpayers' awareness of the income deduction and their desire to adjust tax withholdings or estimated tax payments.

This proposal would result in a decrease in Total State Revenues.

FISCAL IMPACT - State Government	FY 2003 (6 Mo.)	FY 2004	FY 2005
GENERAL REVENUE FUND			
Loss to General Revenue Fund			
Independence Tax Credit Program	($1,478,865)	($5,915,459)	($5,915,459)
Cost - Department of Revenue			
Programming costs	$0	($56,589)	$0
Personal Service (4 FTE)	$0	($95,461)	($97,847)
Fringe Benefits	$0	($31,718)	($32,511)
Expense and Equipment	$0	($19,269)	($1,642)
Total Costs - DOR	$0	($203,037)	($132,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($1,478,865)**	**($6,118,496))**	**($6,047,459)**

FISCAL IMPACT - Local Government	FY 2003 (6 Mo.)	FY 2004	FY 2005
	$0	$0	$0

FISCAL IMPACT - Small Business

Small businesses who purchase these medical devices and equipment would pay less for such items.

DESCRIPTION

This bill creates the Independence Tax Credit Program.

The bill authorizes a state individual income tax credit for purchases of certain assistive technology products, devices, and equipment by any taxpayer who purchases the equipment on behalf of an eligible disabled individual.

The tax credit will be equal to 100% of the cost of the assistive technology products, devices, and equipment if the taxpayer's federal adjusted gross income is $30,000 or less. The tax credit will be equal to 50% of the cost if the taxpayer's federal adjusted gross income is greater than $30,000 but less than $60,000. The maximum credit for any one taxpayer cannot exceed $2,500.

The tax credit applies to tax year 2003 and thereafter.

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
Office of Administration
  Budget and Planning
Secretary of State
Department of Health
Department of Labor and Industrial Relations

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