

COMMITTEE ON LEGISLATIVE RESEARCH
 OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4024-01
Bill No.: HB 1601
Subject: Banks and Financial Institutions; Taxation and Revenue-General and Income
Type: Original
Date: February 15, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$24,258)	(\$20,573,800)	(\$20,775,645)
Total Estimated Net Effect on <u>All</u> State Funds	(\$24,258)	(\$20,573,800)	(\$20,775,645)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Office of Administration, Budget and Planning (BAP)** state this proposal would exempt the first \$250 of interest income from Missouri's individual income tax.

BAP staff state that in tax year 1999, 1,313,450 Missouri tax returns reported taxable interest of \$3,416,238,000 for an average of \$2,601 of interest income per return according to the Spring 2001 Statistics of Income published by the IRS. Since the average interest income per return is well above \$250, BAP assumes that every return would take the full \$250 exemption. A 6% marginal rate was assumed. The number of returns was assumed to grow one percent annually.

Officials of the **Department of Revenue (DOR)** state this legislation allows a subtraction in determining Missouri adjusted gross income for the first \$250 of interest income.

According to the Spring 1999 Federal Statistics of Income Bulletin, there are 1,320,665 Missouri taxpayers with taxable interest reported on the federal return. The Division of Taxation also indicates there are 30,000 S corporations that will also be eligible for this deduction. The Division of Taxation will need ten Tax Season Temporary employees, one for every 130,000 returns filed with this deduction. The number of errors and pieces of correspondence generated from this deduction is unknown at this time. The DOR will need one Tax Processing Tech I for every 30,000 errors and one Tax Processing I for every 3,000 pieces of correspondence received, and will request these FTE through the normal budget process.

DOR assumes this legislation will require modifications to the individual and corporate income tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 1,730 hours of contract labor, a cost of \$57,713. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$11,258 is requested for implementation costs. Modifications to tax returns and schedules will be completed with existing resources.

Oversight, for purposes of this fiscal note, has allowed the 10 temporary employees, but assumes the Division of Taxation could handle the programming provisions of this proposal utilizing 260 hours of overtime at a cost of \$13,000. In addition to the programming changes, Oversight has allowed \$11,258 in funding for State Data Center charges.

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

<u>FISCAL IMPACT - State Government</u>	FY 2003 (6 Mo.)	FY 2004	FY 2005
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GENERAL REVENUE FUND

<u>FISCAL IMPACT - State Government</u>	FY 2003 (6 Mo.)	FY 2004	FY 2005
<u>Loss - General Revenue Fund</u>			
Interest Income Exemption	\$0	(\$20,500,000)	(\$20,700,000)
<u>Cost - Dept. of Revenue</u>			
Personal Service (10 Temps.)	\$0	(\$73,800)	(\$75,645)
Programming	<u>(\$24,258)</u>	<u>\$0</u>	<u>\$0</u>
Total Costs - DOR	<u>(\$24,258)</u>	<u>(\$73,800)</u>	<u>(\$75,645)</u>
 ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	 <u>(\$24,258)</u>	 <u>(\$20,573,800)</u>	 <u>(\$20,775,645)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (6 Mo.)	FY 2004	FY 2005
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

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

DESCRIPTION

This bill exempts the first \$250 per year of interest income received by a taxpayer from Missouri individual income tax.

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

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Office of Administration
Budget and Planning
Department of Revenue

Mickey Wilson, CPA

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive style with a large, prominent initial "M".

Acting Director
February 15, 2002