

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1420-02
Bill No.: HB 441
Subject: Taxation and Revenue - General, Sales and Use, and Income; Business and Commerce
Type: Original
Date: April 11, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	\$0	(\$481,800)	\$2,347,013
Total Estimated Net Effect on General Revenue Fund*	\$0	(\$481,800)	\$2,347,013

*This proposal is permissive. Voter approval would be required before fiscal impact would be realized.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Revenue Replacement Fund	\$0	\$0	\$126,224,000
Total Estimated Net Effect on Other State Funds*	\$0	\$0	\$126,224,000

*This proposal is permissive. Voter approval would be required before fiscal impact would be realized.

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on All Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government*	\$0	\$0	\$0

*This proposal is permissive. Voter approval would be required before fiscal impact would be realized.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **State Tax Commission** assume this legislation will not fiscally impact their agency.

Officials from the **Department of Elementary and Secondary Education** assume this proposal will have no fiscal impact on their agency and an unknown revenue impact for FY05 and FY06.

Officials from the **Department of Revenue (DOR)** did not respond to our fiscal note request. However, in response to a prior similar proposal, DOR stated this proposal exempts food from local sales tax and replaces the lost revenues by lowering the limit of deduction on the federal tax. Systems will need to be developed to determine the lost revenue to political subdivisions and distribute the increase revenue from the decrease in the federal income tax deduction to the locals.

DOR will need the following: Business Tax will need 1 Tax Processing Tech I to assist in the distribution process and to continually work with the cities and counties. Initial mailing to 20,000 accounts will be done by DOR to advise of the change in the Food exemption.

ASSUMPTION (continued)

Personal Tax will have an increase number of returns the first year for financial corrections and will need 1 Tax Processing Tech I for every 30,000 additional errors and 1 Tax Processing Tech 1 for every additional 3,000 pieces of correspondence generated by this legislation. In addition, Customer Assistance will need one TCT I for every 24,000 additional calls received on the income tax hotline. As well as one TCT I for every 15,000 additional calls received on the 7200 hotline on bills due to the deduction errors.

DOR assumes the mainframe systems (MITS and MINITS) will need to be modify to handle the changes in this legislation. Programming costs of MITS will be \$92,340 for 2,768 hours and MINITS will require 692 hours at a cost of \$23,085. State data center charges to implement the legislation are \$22,516.

Oversight assumes DOR will require the Tax Processing Technician to assist with local food sales tax starting in FY 2007 and will require the four temporary Tax Processing Technicians in FY 2006. **Oversight** also assumes the programming changes would be completed in FY 2006.

Officials from the **Office of Administration, Budget and Planning (BAP)** assume the revenue impact of both the food exemption from local sales tax and the increased income tax revenue from the decrease in federal income tax deduction can be calculated from BAP's response to Senate Bill 103 from the 2001 session.

The reduction in sales tax revenue is estimated to be \$126.9 million in FY 2003, and \$129.5 million in FY 2004, based on an average local sales tax rate of 1.5 percent.

The increase in income tax revenue from the decreased federal income tax deduction is estimated to increase revenue to the state by \$109.9 million in FY 2003 and \$118.4 million in FY 2004.

These estimates assume a decrease in the federal income tax deduction to \$3,300 for singles filers and \$6,600 for joint filers, and that the average local sales tax rate is 1.5%.

Oversight assumes, pending voter approval in November, 2004, the effective date of the sales tax exemption for food on local sales taxes will be July 1, 2006 (FY 2007). The corresponding effective date of the decrease in federal income tax deduction would occur for all tax years beginning on or after January 1, 2005, which would be realized by the state on returns filed starting January 1, 2006 (FY 2006).

ASSUMPTION (continued)

Oversight assumes the reduction in sales tax revenue will be approximately \$137.4 million in FY 2007. In addition, **Oversight** assumes the increase in income tax revenue from the decreased federal income tax deduction is estimated to increase revenue to the state by \$128.8 million in FY 2006 and \$134.3 million in FY 2007 (growth rate of 4.3 percent was assumed). **Oversight** assumes while this legislation could result in an increase in total state revenue because of the two percent administrative fee retained in the General Revenue Fund, local government could experience a net decrease in revenue as a result of this proposal.

Officials from the **State Treasurer's Office (STO)** assume this bill affects taxation:

1.) Beginning with the tax year beginning 1/1/05, decreases the deduction for federal income tax liability from \$5000 single, \$10,000 combined to \$3300 single, \$6600 combined;

2.) Creates the Local Revenue Replacement Fund

- additional revenues derived from the reduction of the federal income tax liability deduction shall be deposited here (less 2% for DOR's administrative costs)
- money in the fund deemed local tax revenue
- used to replace lost revenue to counties and cities resulting from exemption of food from local sales tax
- DOR shall estimate the sales tax lost for reimbursement purposes
- unexpended balance in the fund at the end of the biennium shall remain in the fund;

3.) Beginning 7/1/06, food items sold shall be exempted from local sales tax;

4.) Additional state revenues resulting from the reduction of federal income tax deduction goes to the outstanding schools trust;

5.) All becomes effective 1/1/05; and

6.) Goes to a vote of the people in November 2004.

No impact to the STO. STO defers to DOR and BAP for the state impact.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State (SOS)** assume this legislation could require printing additional pages in the *Missouri Register* and the *Code of State Regulations*. These publications are printed by the State Printing Center, which may be impacted by this proposal.

SOS states this bill reduces the deduction for federal income tax liability and exempts retail sales of food from local sales taxes. Based on experience with other divisions, the rules, regulations and forms issued by DOR could require as many as approximately 4 pages in the *Code of State*

Regulations. For any given rule, roughly half again as many pages are published in the *Missouri Register* as 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 \$23.00. The estimated cost of a page in the *Code of State Regulations* is \$27.00. The cost for FY 2004 is estimated at \$146.00. The actual costs 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 and withdrawn.

Oversight assumes 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, SOS could request funding through the appropriations process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

In a similar prior proposal, SOS stated advertisement costs for the proposal would be \$4,380 per newspaper column inch for three publications of the text of the proposal, the introduction, title, fiscal note summary, and affidavit. The proposal would be on the ballot for the November 2004 general election.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
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GENERAL REVENUE FUND

Revenue - General Revenue Fund

Revenue from decreased FIT deduction.	\$0	\$0	\$128,800,000
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<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
<u>Costs - Secretary of State</u>			
Newspaper Advertisements	\$0	(\$481,800)	\$0
<u>Costs - Department of Revenue</u>			
Temp. Personal Service (4)	\$0	\$0	(\$39,411)
Fringe Benefits	\$0	\$0	(\$15,950)
Expense and Equipment	\$0	\$0	(\$30,325)
Programming changes	\$0	\$0	(\$137,941)
Postage	<u>\$0</u>	<u>\$0</u>	<u>(\$5,360)</u>
Total Costs - DOR	\$0	\$0	(\$228,987)
<u>Transfer Out - Local Revenue</u>			
Replacement Fund (revenue less a 2% administration fee)	<u>\$0</u>	<u>\$0</u>	<u>(\$126,224,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$481,800)</u>	<u>\$2,347,013</u>
 LOCAL REVENUE REPLACEMENT FUND			
<u>Transfer In - from General Revenue Fund</u>			
Tax revenue from decrease in FIT deduction	\$0	\$0	\$126,224,000
<u>Transfer Out - Distributions to the Local Political Subdivisions (not until FY07)</u>			
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
NET EFFECT ON LOCAL REVENUE REPLACEMENT FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
POLITICAL SUBDIVISIONS			
<u>Transfer In</u> - Distributions from the Local Revenue Replacement Fund	\$0	\$0	\$0
<u>Loss</u> - Local revenue from sales tax on food (not until FY07)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
NET EFFECT ON POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses who sell certain foods would be expected to be fiscally impacted to the extent that they would no longer collect and pay sales tax on these items. Small businesses who would purchase food would pay less for such items.

DESCRIPTION

Under current law, certain food types are taxable for local sales tax purposes. This proposal exempts these food types from all local sales taxes imposed by political subdivisions. This portion of the proposal will become effective on July 1, 2006.

The proposal also reduces the maximum individual income tax deduction for federal income taxes paid from \$5,000 for a single taxpayer and \$10,000 for married taxpayers to \$3,600 and \$6,600, respectively. This portion of the proposal will become effective on January 1, 2005.

All revenue received from the reduction of the federal income tax deduction on individuals will be deposited into an account to be known as the Local Revenue Replacement Trust Fund. Moneys in this fund will be disbursed to political subdivisions in an amount necessary to replace the lost revenues of the political subdivisions as a result of the local sales tax exemption on the sales of certain food types. The fund and disbursement of the moneys will be administered by the Department of Revenue.

DESCRIPTION

The proposal also keeps deposits to the Outstanding Schools Trust Fund from being reduced.

The bill contains a referendum 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 Administration
Division of Budget and Planning
State Tax Commission
State Treasurer
Secretary of State
Department of Elementary and Secondary Education

NOT RESPONDING: Department of Revenue



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