

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4828-09
Bill No.: Truly Agreed to and Finally Passed CCS for HS for HCS for SB 1394
Subject: Taxation and Revenue: Sales and Use, Income
Type: Original
Date: June 7, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	\$1,637,553 to Unknown	(\$2,271,381 to Unknown)	(\$2,271,381 to Unknown)
Total Estimated Net Effect on General Revenue Fund	\$1,637,553 to Unknown	(\$2,271,381 to Unknown)	(\$2,271,381 to Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Blind Pension	\$0	(Unknown)	(Unknown)
Highway	(\$21,440)	\$0	\$0
School District Trust	Unknown	Unknown	Unknown
Conservation	Unknown	Unknown	Unknown
State Soil and Water	Unknown	Unknown	Unknown
State Parks	Unknown	Unknown	Unknown
Total Estimated Net Effect on Other State Funds	Unknown	Unknown	Unknown

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 14 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government	(Unknown)	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

Section 32.087 - Notification Letters

Officials of the **Department of Revenue** stated that eliminating the requirement that the Department inform local taxing officials of sales tax delinquencies before turning a case over to the Attorney General for collection would result in savings of about \$4,000 per year in printing and postage.

Section 64.930 - Jackson County Sports Complex Authority Commissioner Terms

This proposal does not change the number or compensation of commissioners; therefore, it would have no direct fiscal impact on state or local government agencies.

Section 94.270 - Limits on Business License Fees

Oversight estimates, based on estimates provided by officials of the **City of Edmundson** in response to HCS SCS SB 758 (fiscal note 2524-04), that subdivision 2 of Section 94.270 would

ASSUMPTION (continued)

limit income to \$20,924 annually. Officials estimated that the current license fee would generate \$130,000 in budget years 2004/2005. This would reduce revenue by \$109,076.

Oversight estimates, based on estimates provided by officials of the **City of Woodson Terrace** in response to HCS SCS SB 758 (fiscal note 2524-04), the maximum license fee provided for in this proposal would add an additional \$2,800 in revenue for the city. However, the fee of \$.85 per day of rental passed by the city government in April would have provided an additional \$142,000 per year. Since this proposal would supercede city ordinance, the effect of this proposal would be a \$139,200 reduction in revenues.

Section 94.839 - City of Salem Hotel/Motel Tax

Since the City of Salem would collect this tax if the voters would approve, there would be no direct fiscal effect on any state agency. **Oversight** assumes that administrative costs for the City of Salem and tourism promotion activities would offset collections and the net fiscal effect on the City of Salem would be neutral.

Section 94.902 - City of Gladstone Public Safety Sales Tax

If the voters of Gladstone would approve this tax, the state's General Revenue Fund would receive one percent (1%) of tax revenues as a fee for collecting the tax. **Oversight** assumes that administrative costs for the City of Gladstone and public safety initiatives would offset income and the net fiscal effect on the City of Gladstone would be neutral.

Section 100.710 - Increase in Authorized BUILD Tax Credits (H & R Block)

Oversight assumes, for fiscal note purposes, that Department of Economic Development would authorize and H & R Block would redeem an additional \$950,000 in credits in fiscal year 2005.

Section 135.750 - Film Production Tax Credit

Oversight assumes, for fiscal note purposes, that Department of Economic Development would authorize and a film maker would redeem an additional \$500,000 in credits in fiscal year 2005.

Sections 137.078 and 137.115 - Assessment of Television Broadcasting Equipment

ASSUMPTION (continued)

ASSUMPTION (continued)

Officials from the **State Tax Commission** assume this proposed legislation establishes depreciation tables for certain television broadcasting equipment. The depreciation tables outlined in the proposal appear to be accelerated. This legislation appears to be unique in that it sets forth the method for determining the true value in money for the equipment by using the depreciation tables and multiplying the results by the applicable fraction. Such fraction is to be determined by the industry owning such property.

The State Tax Commission does not have any information available on how this proposal will impact the local political subdivisions or what the revenue loss may be.

Oversight assumes there would be unknown additional costs to county assessors, county clerks, and taxing authority officials to implement this proposal, and has shown these costs in FY 2005. Oversight assumes that any additional costs in subsequent years would be minimal. Oversight also assumes that any tax effect from this proposal would begin in FY 2006 since assessment for 2005 taxes (FY 2006) would be completed after the effective date of this proposal. Oversight assumes there would be an unknown negative impact to the Blind Pension Fund, since the Blind Pension Fund levy rate would not be adjusted.

Sections 137.101 and 301.025 - Proof of Taxability of Personal Property of Charitable Organizations

Officials from the **Department of Transportation** assume this proposal would have no fiscal impact on their agency.

Officials with the **Department of Revenue (DOR)** indicated that proposal could have fiscal impact on their agency. The Information Technology Bureau (ITB) would require 400 hours of overtime programming to develop, program, and test a system that will be accessible to all field offices to determine tax-exempt status of organizations and require proof of status and/or payment of personal property tax. DOR estimates programming costs for FY05 of \$9,344.

Additional costs as assumed by DOR would be for notifying the field of procedural changes. They estimate these costs for FY05 to total \$530. **Oversight** assumes that such procedural changes could be communicated over the course of regular communications with field offices and the costs could be absorbed by existing or planned appropriations.

Section 137.298 - Cooperative Agreements for Collection of Vehicle-Related Fees and Fines

ASSUMPTION (continued)

Officials from the **Office of State Courts Administrator (CTS)** state this proposal would allow, through intergovernmental agreements, the collection of traffic fines, parking fines, towing and vehicle immobilization fees, and the penalties and court costs associated with those fines and fees at the same time as the collection of a taxpayer's personal property taxes.

CTS states it has no way of estimating how much additional revenue may be realized as a result of this legislation. In addition, CTS states there may be some, as of now unknown, costs relating to data extraction, but CTS would not anticipate a significant fiscal impact on the judiciary.

Officials from **Platte County** state software programming could cost over \$50,000 not including the cost of adding employees to accomplish the tasks of data entry and collecting the fees involved.

Officials from the **Department of Revenue - State Tax Commission** state this proposal could cause additional administrative duties for county collectors.

Oversight assumes since the language in this proposal is permissive, political subdivisions would implement these procedures if the resulting revenues would exceed expected costs.

Section 137.505 - Penalty for Not Reporting Personal Property

Officials of the **Department of Revenue - State Tax Commission** stated that there would be a loss of revenue to certain local political subdivisions. Officials assume the amount of loss of revenue is unknown.

Officials of the **City of St. Louis** stated that this proposal would generate a loss of revenue in an amount of approximately \$150,000. Officials did not know the amount of loss to other political subdivisions in the City.

Oversight will show loss of revenue to the City of St. Louis and other Political subdivisions in the City that are dependant upon the property tax system, as (\$150,000 to Unknown)
Oversight assumes the Blind Pension Trust Fund would have a loss of revenue.

Section 143.081 - Credits for Taxes Paid to Other States

Department of Revenue (DOR) officials state this legislation gives a taxpayer a tax credit for

ASSUMPTION (continued)

taxes paid in another state before the application of tax credits in that other state. This will give taxpayers with out-of-state credits a higher resident tax credit. However, DOR assumes the resident credit still cannot exceed the taxpayer's Missouri tax liability.

DOR assumes this legislation will change the form instructions for next year, which will be incorporated into the year-end changes. Personal Tax does not anticipate making any modifications to the MINITS system.

Customer Assistance does not anticipate a large impact in their offices. However, if they are wrong in this assumption they will need one Tax Collection Technician for every 15,000 calls per year on the technical assistance line, and one Tax Collection Technician for every 5,200 calls for the local field office calls.

Officials from the **Office of Administration, Budget and Planning (BAP)** assume this proposal has no impact on BAP. BAP assumes this proposal would increase the credit allowed for taxes paid to another state by no longer requiring the subtraction of tax credits taken in such state. This proposal would have an unknown negative impact on general revenue and Total State Revenues.

Section 143.121 - Deduction for Property Eligible for Accelerated Depreciation

Officials of the **Department of Revenue** stated that the proposal would have fiscal and administrative impact.

ADMINISTRATIVE IMPACT

Personal Tax – Taxation will use the subtraction line that is currently on the return. Therefore only changes to the instructions would be needed.

FISCAL IMPACT

Officials have no basis for estimating the magnitude of increased deductions.

Section 143.241 - Assessment of Delinquent Withholding Taxes

This provision would allow the Department of Revenue to assess a corporation for delinquent taxes if it failed to file a return or if it failed to pay taxes due. Currently, the Department may assess only if the corporation failed to file and failed to pay. **Oversight** has no basis for estimating the amount increased assessments or collections due to these provisions.

ASSUMPTION (continued)

Section 143.431 - Net Operating Loss Deductions

ADMINISTRATIVE IMPACT

143.431.1 - This section would allow a corporation to use his negative federal taxable income. Currently, the state does not allow negative federal taxable incomes, but instead make the taxpayer start with zero. Forms and programming changes would be required for this change.

Section 143.431.1 reverses the Missouri Supreme Court's holding in *Brown Group, Inc. v. Admin. Hearing Comm'n*, 649 S.W.2d 874 (Mo. banc 1983).

143.431.4 - This section would, it appears, allow corporations to use their negative federal taxable income and to not be taxed on any addition modifications (even if the additions exceed the negative federal taxable income). For the 2000 tax year, there were 3,880 corporations that paid Missouri tax of \$2,252,296 from Missouri additions, even though they had negative federal taxable income. Forms and programming changes will be required for this change.

Corporation Income Tax System (COINS) modifications would require an estimated 692 hours of programming at a cost of \$23,085.

FISCAL IMPACT

143.431.4 - This section would, it appears, allow corporations to use their negative federal taxable income and to not be taxed on any addition modifications (even if the additions exceed the negative federal taxable income). For the 2000 tax year, there were 3,880 corporations that paid Missouri tax of \$2,252,296 from Missouri additions, even though they had negative federal taxable income. Forms and programming changes will be required for this change.

Section 143.782 - Offsetting Circuit Breaker Credits Against Income Tax Delinquencies

Officials of the **Department of Revenue** stated that the proposal would have no administrative impact. They have no basis for estimating the amount of additional delinquent taxes might be collected.

Section 144.025 - Trade-in of Motor Vehicles

Officials with the **Department of Revenue (DOR)** assume this proposal would require them to revise procedures and update their Titling Manual, resulting in printing, postage, and mailing

ASSUMPTION (continued)

costs in FY05 totaling \$12,096.

Section 144.083 - Revoking Sales Tax Licenses for Withholding Tax Delinquencies

ADMINISTRATIVE IMPACT

Department of Revenue officials noted that there would be programming costs to change the Withholding Tax System to notify the Missouri Integrated Tax System (MITS) that an account's sales tax license should be revoked, to add new revocation codes to the MITS, and to change the Missouri Individual Income Tax Systems (MINITS) to allow offsetting of property tax credit (PTC) refunds against income tax or PTC claim delinquencies. Officials estimate these changes would require 519 hours of programming at a cost of \$17,314.

FISCAL IMPACT

Department of Revenue officials stated that there is approximately \$7,100,000 in delinquent withholding tax owed by 1,930 accounts which also have sales tax delinquencies of more than \$10. These accounts could have their licenses revoked for sales or withholding tax delinquencies. There is about \$20,300,000 in delinquent withholding tax owed by 2,832 accounts which have sales tax delinquencies of less than \$10 or have no sales tax delinquencies. These accounts could be revoked for withholding tax delinquencies.

DOR officials estimate that twenty percent (20%) to forty percent (40%) of withholding tax delinquencies (\$5,400,000 to \$10,800,000) would be collected due to the possibility of sales tax license revocation. They also note that there would be some increase in sales tax collections.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
<u>Income</u> - Department of Revenue (DOR)			
Increased Withholding Tax Collections	\$5,400,000 to \$10,800,000	Unknown	Unknown
Increased Sales Tax Collections	Unknown	Unknown	Unknown
<u>Savings</u> - Department of Revenue (DOR)			
Decreased Printing and Postage	\$3,333	\$4,000	\$4,000

Cost - Department of Revenue (DOR)

Programming (section 144.083)	(\$17,314)	\$0	\$0
Programming (section 143.431)	(\$23,085)	\$0	\$0

Loss - (section 143.081)

Increase in tax credit for taxes paid to other states	\$0	(Unknown)	(Unknown)
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<u>Loss</u> - Reduced Income Tax Collections	(\$2,275,381 to Unknown)	(\$2,275,381 to Unknown)	(\$2,275,381 to Unknown)
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<u>Loss</u> - Increased BUILD Tax Credits	(\$950,000)	\$0	\$0
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<u>Loss</u> - Increased Film Production Tax Credits	(\$500,000)	\$0	\$0
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ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$1,637,553 to Unknown</u>	<u>(\$2,271,381 to Unknown)</u>	<u>(\$2,271,381 to Unknown)</u>
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BLIND PENSION FUND

<u>Decrease</u> in taxes as a result of changes in assessment of broadcast equipment	\$0	(Unknown)	(Unknown)
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TOTAL ESTIMATED NET EFFECT ON BLIND PENSION FUND	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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HIGHWAY FUND

<u>Cost</u> – DOR (section 137.071 and 301.025)			
Programming overtime costs	(\$9,344)	\$0	\$0

<u>Cost</u> – Department of Revenue (section 144.025)			
Printing, postage, and mailing	(\$12,096)	\$0	\$0

ESTIMATED NET EFFECT ON HIGHWAY FUND	<u>(\$21,440)</u>	<u>\$0</u>	<u>\$0</u>
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SCHOOL DISTRICT TRUST FUND

<u>Income</u> - Increased Sales Tax Collections	Unknown	Unknown	Unknown
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
CONSERVATION FUND			
<u>Income</u> - Increased Sales Tax Collections	Unknown	Unknown	Unknown
ESTIMATED NET EFFECT ON CONSERVATION FUND	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
STATE SOIL AND WATER FUND			
<u>Income</u> - Increased Sales Tax Collections	Unknown	Unknown	Unknown
ESTIMATED NET EFFECT ON STATE SOIL AND WATER FUND	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
STATE PARKS FUND			
<u>Income</u> - Increased Sales Tax Collections	Unknown	Unknown	Unknown
ESTIMATED NET EFFECT ON STATE PARKS FUND	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
POLITICAL SUBDIVISIONS			
<u>Income</u> - Increased Sales Tax Collections	Unknown	Unknown	Unknown
<u>Loss of Revenue</u> to City of Woodson Terrace	(\$139,200)	(\$139,200)	(\$139,200)
<u>Loss of Revenue</u> to City of Edmundson	<u>(\$109,076)</u>	<u>(\$109,076)</u>	<u>(\$109,076)</u>

<u>Decrease in taxes as a result of changes in assessment to broadcast equipment</u>	\$0	(Unknown)	(Unknown)
<u>Cost to counties</u>			
Additional administrative cost to county assessor and clerk.	(Unknown)	\$0	\$0
<u>Cost to other political subdivisions</u>			
Additional administrative and reporting cost.	(Unknown)	\$0	\$0
<u>Loss of Revenue to City of St. Louis and other Political Subdivisions from reduction in penalty rate on no files</u>	<u>(\$150,000 to Unknown)</u>	<u>(\$150,000 to Unknown)</u>	<u>(\$150,000 to Unknown)</u>
ESTIMATED NET EFFECT ON POLITICAL SUBDIVISIONS	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

FISCAL IMPACT - Small Business

Small businesses which were delinquent in paying withholding or sales taxes would be affected by this proposal.

DESCRIPTION

This proposal would revise tax laws by:

- 1) repealing the requirement that the Department of Revenue notify affected local taxing entities before turning a delinquent tax case to the Attorney General for collection and making the Department always include local taxes in a suit against a delinquent taxpayer;
- 2) prohibit the City of Edmundson from levying and collecting a license tax on hotels and motels in an amount in excess \$27 per room per year and the City of Woodson Terrace an amount in excess of \$13.50 per room per year;
- 3) allowing the City of Salem to impose a voter-approved transient room tax of up to five percent (5%) with proceeds to be used exclusively for promoting tourism;
- 4) allowing the City of Gladstone to impose a voter-approved sales tax of up to one-half of one percent (.5%) with proceeds to be used for public safety purposes;
- 5) setting the true value in money for assessment of television broadcasting equipment at a value determined based upon the historical cost of the item as depreciated and providing depreciation tables for analog and digital equipment;
- 6) revising proof of property taxes procedures for motor vehicle registrations for certain tax-exempt organizations;
- 7) allowing, through intergovernmental agreements, the collection of traffic fines, parking fines, towing and vehicle immobilization fees, and the penalties and court costs associated with those fines and fees at the same time as the collection of a taxpayer's personal property taxes;
- 8) reducing the penalty for failure to deliver an accurate personal property assessment list in a timely manner from 25% of the assessed value of the property to 10%;
- 9) increasing the credit allowed for taxes paid to another state by basing the amount of the credit on the tax liability in the foreign state prior to subtraction of any tax credits taken in such state;
- 10) allowing an additional subtraction from a taxpayer's federal adjusted gross income when assets that are subject to federal bonus depreciation are disposed of before the end of the assets' depreciable life;

DESCRIPTION (continued)

11) allowing negative federal taxable income to be reported on the Missouri income tax return and require, for tax years ending on or after July 1, 2002, for which a net operating loss is allowed for a taxable year, adding to federal adjusted gross income the amount of the net operating loss modification for each loss year as to which a portion of the net operating loss is attributable.

12) allowing the Department to offset property tax credit (circuit breaker) refunds against income tax delinquencies or property tax credit delinquencies;

13) removing the requirement in §144.025 that “when the article being traded in for credit or part payment on a motor vehicle, trailer, boat or outboard motor is another motor vehicle, trailer, boat, or outboard motor that the person trading in the motor vehicle, trailer, boat, or outboard motor must be the owner or holder of a properly assigned certificate of ownership.”; and

14) allowing the Department to revoke sales tax licenses for failure to pay employer withholding tax.

Sections 137.078 (assessment of television broadcasting equipment) and 143.081 (credit for taxes paid to other states) would become effective January 1, 2005.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space. This proposal could affect Total State Revenue.

SOURCES OF INFORMATION

Department of Revenue
State Tax Commission
State Courts Administrator
Office of Administration - Division of Budget and Planning
City of Edmundson
City of Woodson Terrace



Mickey Wilson, CPA

L.R. No. 4828-09

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