

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3725-01
Bill No.: SB 565
Subject: Licenses - Motor Vehicle; Taxation and Revenue; Health Care; Public Health.
Type: Original
Date: February 7, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	(\$14,860)	Up to (\$36,900)	Up to (\$36,900)
Total Estimated Net Effect on General Revenue Fund	(\$14,860)	Up to (\$36,900)	Up to (\$36,900)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (BAP)** state the legislation provides a deduction from federal adjusted gross income, up to \$10,000, for the donation of a specified human organ. A Missouri resident may deduct up to \$10,000 if the donation is made while they are living. The deduction is limited to travel and lodging expenses and lost wages for the donor.

BAP assumes the proposal would have an unknown negative impact on Total State Revenues and General Revenue.

The legislation stipulates that the Missouri Drivers License shall provide notice of this tax deduction. BAP defers to the Department of Revenue for the estimated costs of this proposal.

Officials from the **Department of Revenue (DOR)** state the volume of filers claiming this subtraction is expected to be less than 100 and therefore can be handled by existing staff.

DOR states this legislation will require modifications to individual and corporate income tax systems. DOR's Taxation estimates these modifications will require a MINITS programming costs of \$46,170 (1,384 hours). COINS will also need to be modified for a programming cost of

ASSUMPTION (continued)

\$23,085 (692 hours). DOR proposes to cover these costs with current IT staff. Effective July 1, 2006, DOR's IT staff will be moved to the Office of Administration pursuant to consolidation, but DOR has no reason to believe this transfer will limit our ability to absorb these costs. In the event multiple new credits/deductions are passed, this cost could exceed current appropriation levels and result in additional funds being requested.

Documentation will need to be submitted to DOR by the taxpayers to verify the deduction. Tax will develop a form similar to the MO-ATC that will need to be signed by a physician and documenting the actual out of pocket expenses incurred which will then be submitted with the subtraction.

DOR states their response to a proposal similar to this one in a previous session indicated they planned to absorb the administrative costs to implement this proposal. Due to budget constraints and the reduction of staff, DOR is unable to absorb the administrative costs associated with this proposal, therefore the fiscal impact is:

The Customer Services Division will have internal costs estimated to be \$14,860 (programming and testing) associated with the implementation of this legislation.

Programming

This legislation will require programming changes and testing for the Over the Counter (OTC) driver license issuance system. Additionally, programming changes and testing will be required for the systems that support the OTC system. Those supporting systems are the Missouri Driver License (MODL) system, the Central Driver License Information System (CDIS), and the Missouri Transportation Accounting System (MTAS).

FY07 Contracted Programming (ITB)

75	Hours required for contracted programming to back-of-license print routine
<u>\$100</u>	Hourly contract rate
<u>\$7,500</u>	Total contracted programming cost

FY07 Development/Testing (CAB)

320	Hours required for development/testing
<u>\$23</u>	Hourly overtime rate for one CIT III (requires two CIT IIIs)
<u>\$7,360</u>	Total cost for development/testing

This legislation will also require minor changes for the Correspondence Tracking and Generation (CTG) system. Changes to the CTG system would be handled with current resources.

ASSUMPTION (continued)

Forms

This legislation will require changes to the Missouri Driver Guide, the Uniform License Issuance Manual (ULIM), and the Department of Revenue web site. Changes to the Missouri Driver Guide would be incorporated at the next reorder point; therefore no cost would be incurred. Cost for changes to the ULIM and web site would be minimal, and therefore would be handled with current resources.

In summary, DOR assumes a cost to the General Revenue Fund of \$14,860 in FY 2007.

Officials from the **Department of Health and Senior Services (DOHSS)** assume the cost to the state for lost tax revenue is estimated to be less than \$36,900 annually. This is based on the annual number of living organ donors in Missouri (average of 82 over the past four years) claiming the maximum amount of \$10,000 and assumes an effective marginal tax rate of 4.5% ($82 \times \$10,000 \times 4.5\% = \$36,900$). Clearly, the estimated lost revenue is grossly overestimated, since not all of the living donors will achieve \$10,000 in unreimbursed expenses.

DOH states this bill is similar to legislation that has passed in Wisconsin and Georgia, and has been introduced in 9 other states. The goal of this legislation is to increase the number of people who can receive a living donor organ by reducing the negative financial impact to the donors for unreimbursed expenses. The bill reduces the financial disincentives for donors by giving a one-time deduction off their federal adjusted gross income for unreimbursed travel/lodging expenses and for lost wages. The state tax deduction would be limited to people who have been Missouri residents for the entire year. The deduction would not exceed \$10,000.

Research indicates that 23%, of living kidney donors and 27% of living liver donors are moderately or significantly burdened by unreimbursed expenses. Generally, lost wages are the largest component of unreimbursed expenses. Live kidney donors routinely miss 30 workdays for recovery, while liver donors typically miss more. Using the 2003 average Missouri hourly wage of \$16.27, a typical kidney donor could have \$3,904.80 in lost wages. All living organ and marrow donors, who are state or federal employees, qualify for paid leave. Marrow donors, not included in the 82 person estimate, already receive reimbursement for travel and lodging expenses. Thus, it is not possible to estimate an exact amount of lost tax revenue, but the number would be less than \$36,900 total to offer this deduction to living donors each year.

DOHSS indicated that an increase in the number of donors as a result of this proposal would likely create indirect savings to the state in lieu of reduced public health chronic care expenses for patients awaiting transplants. **Oversight** is unable to quantify any potential increase in donors, and thus cannot credibly estimate any such savings.

ASSUMPTION (continued)

Oversight assumes this proposal is effective for tax years beginning on or after January 1, 2007.

This legislation would reduce Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (6 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
<u>Cost</u> – Department of Revenue Programming	(\$14,860)	\$0	\$0
<u>Loss</u> – Income Tax Deduction	<u>\$0</u>	<u>Up to (\$36,900)</u>	<u>Up to (\$36,900)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$14,860)</u>	<u>Up to (\$36,900)</u>	<u>Up to (\$36,900)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2007 (6 Mo.)	FY 2008	FY 2009
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

DESCRIPTION

The proposal allows for a ten thousand dollar state income tax deduction to be taken in the year in which a organ donation is made. Missouri drivers licenses will have a notice on the back of each license stating that Missouri allows a one-time ten thousand dollar state income tax

DESCRIPTION (continued)

deduction for organ donations.

The proposal defines which organs qualify for the deduction, as well as what expenses will be deductible. The deduction is not available for a part-year resident or a nonresident.

The proposal has an effective date of January 1, 2007.

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 Health and Senior Services
Department of Revenue
Office of Administration - Budget and Planning



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February 7, 2006