COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5038-01
Bill No.: Perfected HB 1930
Subject: St. Louis City Collector: Delinquent Taxes, Penalities
Type: Original
Date: May 3, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	($262,299)	($255,573 to Unknown)	($261,978 to Unknown)
Total Estimated Net Effect on General Revenue Fund	**($262,299)**	**($255,573 to Unknown)**	**($261,978 to Unknown)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Blind Pension Trust	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 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	**$1,000,000 to (Unknown)**	**$1,000,000 to (Unknown)**	**$1,000,000 to (Unknown)**

FISCAL ANALYSIS

ASSUMPTION

Officials of the **City of St. Louis Office of City Collector** assume the proposed legislation would increase the interest penalty on delinquent real estate taxes. Actual interest revenue from delinquent real estate taxes has declined in recent years following the reduction in interest penalties since 2000. Under the proposed legislation, the increase would provide a greater incentive for timely payments with an estimated impact of $1,000,000 - $1,500,000 per year based on the pre 2000 interest penalty revenues. Officials stated that the revenues would be prorated among the taxing jurisdictions.

Officials of the **Department of Natural Resources** assumes this proposal would have no fiscal impact on their department.

Oversight assumes that the Missouri Blind Pension Trust Fund would receive its prorated share of delinquent collections. Oversight cannot estimate the amount of fiscal impact, however, fiscal impact would be expected to be less than $100,000 annually.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** state this legislation would allow taxpayers (65 and older, or are a veteran of any branch of the armed forces of the US or this state and who was 100% disabled during such service, or who is disabled as described by this section and who has lived in their homestead for at least 20 years and paid more than 10% of his/her total household income on their real property tax) a credit in an amount equal to 50% of his/her property taxes paid on the homestead. Since this is a refundable credit, taxpayers who would not normally file returns, will do so in order to get the refund. This will increase the number of returns filed.

DOR states the US Census for 2004 reports:

- 713,227 Missouri residents are age 65 years and over.
- 536,289 veterans are residing in Missouri (this census does not distinguish how many of these veterans are disabled and how many are simply veterans)
- 818,047 MO residents fit the disability status (population 5 years of age and over)

The number of filers for this credit is unknown. Some of these taxpayers will already be filing, however, there will also be filers that normally would not be required to file but do so in order to get the 50% refund on their property tax as a result of this credit. DOR's Administrative Impact:

- Forms - According to Subsection 4, this legislation has included nontaxable income. This is currently not included on the Missouri tax return, other than the Missouri Property Tax Credit Claim. A new and separate worksheet would need to be created. The worksheet will also need a line for add-back, non-business losses. This would create additional functions for the Temporary Tax Employees.

The worksheet will need to have 7 lines, plus 1 line containing the amount to carry over to the income tax return.

Personal Tax will need 1 speed-up Temporary Tax Employee for every additional 32,000, paper returns filed,

1 giddy-up Temporary Tax Employee for every additional 10,705 1040P's filed,

1 speed-up Temporary Tax Employee for the additional line added to the existing paper returns

ASSUMPTION (continued)

filed, and

1 speed-up Temporary Tax Employee for the additional line added to paper 1040P's filed.

1 Tax Processing Technician I for every 19,000 additional errors, and 1 Tax Processing Technician I for every 2,400 pieces of additional correspondence (for MO-1040 & 1040 family). Also, require 1 Tax Processing Technician I for every 25,000 additional errors and 5,000 pieces of correspondence (for MO-1040P).

IT - This legislation will require modifications to individual and corporate income tax systems. 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 $23,085 (692 hours). The department proposes to cover these costs with current IT staff. In the event multiple new credits/deductions are passed, this cost could exceed current appropriation levels and result in additional funds being requested.

Customer Assistance - Anticipates an increase in the volume of walk-ins, telephone calls, and general assistance.

CA requires 1 Tax Processing Technician I for every additional 4,800 contacts in the field offices, 1 Tax Collection Technician I for every additional 15,000 contact on the delinquency line (billing due to lack of documentation), and 1 Tax Collection Technician I for every additional 24,000 contacts on the income tax line (general inquiries & adjusted credits/refunds).

In summary, DOR anticipates a cost of roughly $150,000 per year to administer this legislation. DOR states this proposal resembles the Property Tax Credit.

Oversight assumes DOR will not require the additional FTE and related costs until FY 2008. Oversight also assumes DOR will not pay for additional building space as a result of the requested FTE.

In response to identical legislation, fiscal note 3619-02 HB 1215, the following departments issued the following fiscal impact statements:

Officials from the **Office of Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act.

ASSUMPTION (continued)

The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to Secretary of State's office for Administrative Rules is less than $1,500. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Office of Administration - Budget and Planning (BAP)** state this bill proposes a refundable tax credit for qualified elderly and disabled individuals for property taxes paid. BAP assumes there will be a loss to general revenues to the extent that funding for schools is impacted. The Department of Revenue should provide the estimate of possible increased costs and revenues to the state as a result of this proposal.

Officials from the **University of Missouri - Economic & Policy Analysis Research Center (UM-EPARC)** state the bill proposes a tax credit for certain elderly and disabled filers who are residents of Missouri. For those meeting the age, disability and homestead criteria, they are permitted to take a tax credit for property taxes paid in the previous year. Property taxes must be no less than 10 percent of pension income. Under these conditions, 50 percent of the property taxes, after adjusting for inflation, can be taken as a tax credit.

UM-EPARC ran a simulation that uses the Urban Consumer Price Index per year, with 2004 as the base year. The inflation rate is for 2004 since 2005 data are incomplete. The following table reflects the minimum and maximum income brackets used in calculating the estimate for the property tax refund credit. The data used are from the 2004 income tax returns. For those individuals who filed a standard deduction and did not file a Property Tax Credit form, their amount of property tax is the average tax of other filers in their tax bracket for whom we know their property tax amount.

ASSUMPTION (continued)

	Number	Amount of Property Tax Credit
Taxpayers who didn't take the circuit breaker credit	7,413	$11.3 million
Taxpayers who did take the circuit breaker credit	8,383	NA
- Would switch to new tax credit	4,512	$5.0 million
- Would continue to take circuit breaker credit	3,871	NA
- Forgone circuit breaker tax credit		($2.7 million)
TOTAL		$13.6 million

Therefore, UM-EPARC assumes that net General Revenue would decline by $13.6 million.

Oversight assumes that this proposal would create an unknown reduction in revenue to the General Revenue Fund beginning in FY 2008. Oversight will use UM-EPARC's estimate as a footnote.

This proposal will reduce total state revenue.

FISCAL IMPACT - State Government	FY 2007 (6 Mo.)	FY 2008	FY 2009
GENERAL REVENUE FUND			
Costs - Department of Revenue			
Personal Service (6 FTE)	($117,834)	($144,936)	($148,559)
Fringe Benefits	($64,607)	($77,190)	($79,120)
Expense and Equipment	($51,058)	($3,189)	($3,285)
Temporary Employees (4 TE)	($28,800)	($30,258)	($31,014)
Total Costs - DOR	($262,299)	($255,573)	($261,978)
Loss - Revenue reduction from tax credit for certain elderly and disabled persons for real property taxes paid **	$0	(Unknown)	(Unknown
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($262,299)**	**($255,573 to Unknown)**	**($261,978 to Unknown**

FISCAL IMPACT - State Government	FY 2007 (6 Mo.)	FY 2008	FY 2009
Income to Blind Pension Trust Fund From increase in interest rate on delinquent tax collections.	Unknown	Unknown	Unknown
ESTIMATED NET EFFECT TO MO. BLIND PENSION TRUST FUND *	**Unknown**	**Unknown**	**Unknown**

*** Oversight assumes annual fiscal impact would be less than $100,000.**
**** Could exceed $13,000,000**

FISCAL IMPACT - Local Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
LOCAL GOVERNMENT TAXING AUTHORITIES CITY OF ST. LOUIS			
Income to Local Taxing Authorities From increase in interest rate allowed on delinquent tax collections.	$1,000,000 to $1,500,000	$1,000,000 to $1,500,000	$1,000,000 to $1,500,000
Loss of Interest to Local Taxing Authorities from withholding of interest on certain delinquent tax collections *	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT TO LOCAL GOVERNMENT TAXING AUTHORITIES CITY OF ST. LOUIS	**$1,000,000 to (Unknown)**	**$1,000,000 to (Unknown)**	**$1,000,000 to (Unknown)**

FISCAL IMPACT - Local Government (continued)	FY 2007 (10 Mo.)	FY 2008	FY 2009
ST. LOUIS CITY SPECIAL REMEDIATION FUND			
Income to Special Fund from withholding of excess interest on certain taxpayers.	Unknown	Unknown	Unknown
Cost to Special Fund From remediation/lead abatement of schools and other public buildings.	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT TO ST. LOUIS CITY SPECIAL REMEDIATION FUND **	**$0**	**$0**	**$0**
ESTIMATED NET EFFECT TO LOCAL GOVERNMENT	**$1,000,000 to (Unknown)**	**$1,000,000 to (Unknown)**	**$1,000,000 to (Unknown)**

***Unknown loss of interest is expected to be minimal.**

**** Oversight assumes annual costs of remediation would not exceed income which would result in a zero fund balance.**

FISCAL IMPACT - Small Business

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

DESCRIPTION

This bill changes the minimum rate of interest that can be charged on delinquent real property taxes from 1% to 2% per month and the maximum rate from 10% to 18% per year. The prime rate limitation is also removed.

This bill authorizes, beginning January 1, 2007, a 50% tax credit for the elderly or disabled who have lived in their home for at least 20 years and who have spent at least 10% of their household income on real property taxes.

DESCRIPTION (continued)

The tax credit is refundable; and taxpayers will not be able to claim this credit if they filed a valid claim under Sections 135.030 or 137.106, RSMo, for the same tax year. The provisions of the bill will expire six years from the effective date.

A taxpayer whose income is below 185% of the federal poverty level or who is 65 years of age or older will only be assessed interest from the date of delinquency at the rate of 1% with a maximum rate of 10% per year. Funds in excess of 1% per month and 10% per year will be deposited with the city treasurer and used solely for lead hazard remediation, abatement, and/or removal in buildings and structures owned and operated by the board of education of a metropolitan school district until all lead hazard abatement is completed. Thereafter, the funds will be used for lead abatement, remediation, and/or removal in other buildings located in the City of St. Louis.

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

St. Louis County - Director of Administration
City of St. Louis - Collector of Revenue
Department of Natural Resources

Mickey Wilson

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Director
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