COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1084-02
Bill No.: Perfected HCS for HB 457
Subject: Elderly; Housing; Revenue Dept.; State Tax Commission; Taxation and Revenue - Property
Type: Original
Date: April 4, 2007

Bill Summary: Would make changes in the Senior Property Tax Credit (Circuit Breaker) and Homestead Property Tax Credit programs and create a Tax Credit for Real Estate Taxes Paid for Certain Elderly and Disabled Taxpayers.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	($100,228)	(More than $8,246,190)	(More than $12,111,179)
Total Estimated Net Effect on General Revenue Fund	**($100,228)**	**(More than $8,246,190)**	**(More than $12,111,179)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Blind Pension *	$0	$0	$0
Total Estimated Net Effect on Other State Funds *	**$0**	**$0**	**$0**

* Net of revenue reduction and reimbursement.
Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 12 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	6.0	6.0	6.0
Total Estimated Net Effect on FTE	**6.0**	**6.0**	**6.0**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government *	**$0**	**$0**	**$0**

* Net of revenue reduction and reimbursement.

FISCAL ANALYSIS

ASSUMPTION

Senior Property Tax Credit (Circuit Breaker) and Homestead Property Tax Credit

Officials from the **City of Centralia**, **Nodaway County**, **Texas County**, and the **Office of the Boone County Collector** assumed a previous version of this proposal would have no fiscal impact to their organizations.

Officials from the **Office of Administration**, **Division of Budget and Planning**, assumed there would be no added cost to their organization as a result of a previous version of this proposal. BAP notes that the proposal could increase claims in the Senior Property Tax Credit or Homestead Preservation Credit programs. This proposal would reduce general and total state revenues. BAP defers to the DOR and STC for an estimate of the reduction.

Officials from the **Department of Elementary and Secondary Education** (DESE) stated the proposal does not appear to require any increase in state cost to the basic state aid for public school districts. The proposal does specify that revenue losses to political subdivisions would be reimbursed by the state through appropriations. Therefore, there appears to be some unknown state cost.

Officials from the **University of Missouri**, **Economic Policy and Research Center** (EPARC) stated in response to a previous version of this proposal that the impact of the Circuit Breaker provisions in this proposal would increase property tax relief for senior citizens. Beginning in 2008, the upper income limit would be increased to $25,000. Over time, the upper income limit would be indexed to the rate of change in the consumer price index. Similarly, the minimum tax bracket would also be indexed to the same measure of inflation. EPARC used an estimated inflation rate of 3.2 percent per year and estimated the change in the tax credit would be as follows:

FY 2008	$0	No change in credit
FY 2009	$937,973	increase in credit
FY 2010	$909,501	increase in credit
FY 2011	$1,705,699	increase in credit
FY 2012	($835,303)	decrease in credit

ASSUMPTION (continued)

Oversight notes that the current version of the proposal would increase the maximum income limit for married filers completing combined returns to $32,000, and assumes the current version of the proposal would have a cost greater than the EPARC estimate.

In response to a similar proposal in the previous session, (HB 1808 LR 5066-01 (2006) the **State Tax Commission** (TAX) provided the following information regarding changes to the Homestead Preservation Act changes:

According to the 2000 census information, 70.3% of the housing units are owner occupied with 22.4% of the householders 65 years of age and older. In additional, 89.6% of these households have income less than $70,000. TAX does not have any information available as to spouse age or handicapped status for spouses of homeowners over 65. For fiscal note purposes, TAX assumes all householder are over 65 and have a spouse over 60 or handicapped.

The 2005 assessed valuation for residential property is $42,782,543,503. As there are minimal improvements to residential property in an even-numbered year, TAX will assume for 2006, the assessed valuation will again be approximately 42.7 billion dollars.

TAX calculated the estimated change in tax collections as follows:

$42,782,543,503 x 70.3% (residential property owner occupied) = $30,076,128,082.

$30,076,128,082 x 22.4% (residential property owner occupied 65 years and older) = $6,737,052,690.

$6,737,052,690 x 89.6% (income under $70,000) = $6,022,925,104.

In the next reassessment year (2007), TAX projected there will be an increase in assessed valuation of 10% for all real property.

Oversight assumes that by utilizing TAX's estimate of assessed valuation of $6,022,925,104 for those residential properties with owners 65 years of age and older and with incomes under $70,000, this would equate to property taxes of roughly $361,375,506, using a $6 per hundred average state tax rate ($6,022,925,104 / 100 x $6). The increase in 2007 of 10 percent (as projected by TAX) would equate to $36,137,550. The homestead exemption limit (maximum allowable increase in property taxes due) is 5% in a General Reassessment (odd numbered) year and 2 1/2 % in a year with out a General Reassessment (even numbered).

ASSUMPTION (continued)

The current tax increase limit is based on the increase to tax liability from two years prior to the application to the year prior to the application. The proposal would fix the base year for applications filed in 2007 as 2005, and the base year for applications filed after 2007 would be the later of 2006 or the year before the taxpayer's first application was approved. The base year for taxpayers who file an initial application after 2007 would have a base year prior to the year in which they file an initial application.

Oversight assumes that most taxpayers who have already filed an initial application would have the same assessed value for 2006 as for 2005, and the same limited increase for 2007. The proposal would therefore have no fiscal impact for 2007 (FY 2008).

For 2009, however, the proposal would fix the base year for most taxpayers at 2006 rather than 2008. There would be an additional tax credit for 2009 (FY 2010) equal to ($36,137,550 x 110% x 110%) - (36,137,550 x 105% x 105%) = $3,884,787. The tax credit required would continue to increase since the fixed base year valuation would fall farther behind assessment increases.

Oversight assumes the county collectors would abstract the tax credits to all taxes levied, resulting in losses to the Blind Pension Fund of approximately ½ of 1% of the credits, or $19,424 in FY 2008. In addition, the reimbursement to the counties would be subject to the 1/4% withholding for the county's Assessment Fund. In FY 2010 there would be a state reimbursement, subject to appropriation, of an amount equal to that tax loss which would be abstracted by the county collectors and received by the Blind Pension Fund.

Oversight will assume the tax credits for the reassessment year of 2009 will be appropriated for FY 2010. Oversight also assumes the county assessors will incur an unknown amount of additional expense from the proposal in the state's even fiscal years.

Officials from the **Department of Revenue** (DOR) assume this proposal would allow more taxpayers to qualify for the Senior Property Tax Credit (PTC) and Homestead Preservation Credit (HPC), which would result in reduced state revenues.

DOR assumes Personal Tax would require 1.0 Temporary Tax Employee for every additional 10,705 returns filed, and 1 Tax Processing Technician I for every additional 25,000 returns to be verified and for correspondence, due to the income limitation changes found in this legislation.

ASSUMPTION (continued)

DOR also stated that Customer Assistance would anticipate a greater volume of customer contacts. They would require 1 Tax Collection Technician I for every 15,000 calls a year on the income tax hot line due to lack of documentation. They will also need 1 Tax Processing Technician I for every additional 4,800 contacts in the field offices. DOR anticipates most customers would contact the department via phone, and therefore, would only request 1 FTE for each of the larger field offices including Kansas City, St. Louis, and Springfield.

Information Technology ITSD/DOR estimates the IT portion of this request could be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. ITSD/DOR estimates that this legislation could be implemented utilizing 2 existing CIT III for 2 months at a cost of $16,744.

Tax Credit for Real Property Taxes Paid

Officials from the **Office of the Boone County Collector** and **St. Louis County** assumed a previous version of this proposal would have no fiscal impact on their organizations.

Officials from the **Department of Revenue** (DOR) assume the proposal would provide for a refundable credit against income tax for 50% of the property taxes paid by certain taxpayers meeting the eligibility requirements.

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

The US Census for 2005 reports that 721,138 Missouri residents are age 65 years and over, 533,517 veterans reside in Missouri, and 906,570 Missouri residents aged five and over are disabled as defined in the proposal. 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 would do so in order to get the 50% refund on their property tax.

ASSUMPTION (continued)

Administrative Impact:

Forms - A new and separate worksheet would need to be created; however, the Forms Section assumes DOR could absorb these costs.

Personal Tax - This proposal would require an additional line on the Form MO-1040 and 1040 related forms. Personal Tax would require 2 Temporary Tax Employees for key-entry, 1 Tax Processing Technician I for every 19,000 returns to be verified by Quality Review, and 1 Tax Processing Technician I for every 2,400 pieces of correspondence. They would also require 2 Temporary Tax Employees for key-entry of 1040P and PTC forms, and 1 Tax Processing Technician I for every additional 5,000 verified returns plus correspondence on the 1040P/PTC forms.

Customer Assistance would anticipate an increase in the volume of walk-ins, telephone calls, and general assistance. Customer Assistance would require 1 Tax Collection Technician I for every additional 15,000 contacts on the delinquency line (due to lack of documentation).

Customer Assistance assumes the additional workload could be handled with Temporary Tax Employees since DOR currently handles this type of tax issue with the existing Homestead Preservation Credit and Property Tax Credit.

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request could be accomplished with existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. ITSD DOR estimates that this legislation would require 5 existing CIT III for 3 months at a rate of $62,790.

Officials from the **University of Missouri Economic Policy and Research Center** (EPARC) assume this proposal would provide a tax credit for Missouri taxpayers who have lived in the same residence for twenty years and have paid more than ten percent of their income in property taxes. The taxpayer must also be 65 or older, a 100% disabled veteran, or a disabled person. The proposed tax credit would be equal to fifty percent on the property tax and would be applied against the taxpayer's income tax liability.

ASSUMPTION (continued)

EPARC assumes that 7,043 filers would switch from the current circuit breaker provision and receive a total of $7.7 million in tax credits. Those taxpayers who switch would forego the circuit breaker tax provision and would lose $4.1 milion in tax credits. An additional 5,102 filers would continue to use the circuit breaker provision and receive $3.4 million in tax credits. EPARC calculated the net General Revenue Fund impact as a net loss of $7 million per year.

Oversight assumes for purposes of this fiscal note that the reduction in General Revenue Fund tax revenues would be constant. The actual reduction in future years would likely depend on changes in property taxes and income levels among eligible taxpayers, and on other changes to the state's tax provisions.

Officials from the **State Tax Commission** assume this proposal would have no fiscal impact on their organizations.

Officials from the **Office of the Secretary of State** (SOS) provided this response to the current version of the proposal.

Many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. SOS 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 SOS for Administrative Rules is less than $2,500. SOS 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.

The **Department of Revenue** provided a response to the current version of the proposal which indicated a total of six additional FTE and the related equipment, expense, and temporary employees totaling $246,729 for FY 2008, $298-199 for FY 2009, and $307,145 for FY 2010.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional staff to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. In addition, Oversight has reduced certain equipment and expense items in accordance with Office of Administration budget guidelines. Oversight assumes that the relatively small number of additional staff can be located in existing office space. Since the proposed credit for property taxes paid would be effective for tax years beginning after January 1, 2008, Oversight assumes DOR would incur that additional cost beginning in FY 2009.

This proposal would reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE FUND			
Cost - Department of Revenue			
Personal Service (6.0 FTE)	($53,460)	($132,154)	($136,118)
Fringe Benefits	($23,554)	($58,226)	($59,974)
Tax Season Temporary	($6,663)	($114,728)	($117,597)
Expense and Equipment	($16,551)	($3,109)	($3,202)
Total cost - Department of Revenue	($100,228)	($308,217)	($316,891)
Revenue reduction - Property tax credit	$0	(More than $937,973)	(More than $909,501)
Revenue reduction - Tax credit for property taxes paid	$0	($7,000,000)	($7,000,000)
Cost - Reimbursement of Homestead Exemption Tax Credits	$0	$0	($3,884,787)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($100,228)**	**(More than $8,246,190)**	**(More than $12,111,179)**
Estimated Net FTE Change for General Revenue Fund	6.0 FTE	6.0 FTE	6.0 FTE
BLIND PENSION FUND			
Revenue - reimbursement from appropriation for Homestead Exemption Tax Credits	$0	$0	$19,424
Revenue Reduction - Homestead Exemption Tax Credits	$0	$0	($19,424)
ESTIMATED NET EFFECT TO THE BLIND PENSION FUND	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
LOCAL GOVERNMENTS			
Revenue - reimbursement from appropriation for Homestead Exemption Tax Credits	$0	$0	$3,884,787
Revenue Reduction - Homestead Exemption Tax Credits	$0	$0	($3,884,787)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**$0**	**$0**	**$0**

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This proposal would make changes in the Senior Property Tax Credit (Circuit Breaker) and Homestead Property Tax Credit programs, and would authorize a tax credit for certain elderly and disabled individuals for real property taxes paid.

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 the Secretary of State
Office of Administration
Division of Budget and Planning
Department of Elementary and Secondary Education
Department of Revenue
State Tax Commission
City of Centralia
Nodaway County
Texas County
Office of the Boone County Collector

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