

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2011-01
Bill No.: HB 932
Subject: Children and Minors; Revenue Dept.; Taxation and Revenue - Income
Type: Original
Date: March 5, 2007

Bill Summary: Would provide an income tax credit for parents who stay home to provide care for young children.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(\$1,691,278)	(\$1,692,248)	(\$1,693,216)
Total Estimated Net Effect on General Revenue Fund	(\$1,691,278)	(\$1,692,248)	(\$1,693,216)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
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 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on FTE	0	0	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

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Health and Senior Services** and the **Department of Social Services** assume this proposal would have no fiscal impact on their organization.

Officials from the **Office of the Secretary of State** (SOS) provided the following response:

Many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The 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. The 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.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) stated that this proposal would create an income tax credit for parents that forego current employment to stay at home to provide care for their children. The cumulative amount of credits that could be issued in any one fiscal year is \$2 Million. Therefore, general and total state revenues could be reduced annually by this amount. BAP officials assume there would be no added cost to their organization as a result of this bill.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume that the proposal would provide an income tax credit for parents that stay at home to provide care for young children. EPARC officials stated that they were not able to estimate the fiscal impact of the proposal.

Officials from the **Department of Revenue** (DOR) assume this proposal would create a tax credit for providing care for an eligible child. Any stay-at-home parent or spouse whose filing status is married filing combined would be eligible for the credit. The tax credit amount would be equal to 25% of the stay-at-home parent's annual salary in the year before the parent terminated gainful employment. The credit could be carried forward for three years but would not be refundable and could not be transferred, sold, or assigned. The cumulative amount of all credits issued in any one fiscal year could not exceed \$2 million.

ASSUMPTION (continued)

DOR would administer the tax credit program and apportion available credits equally. The parent would file an affidavit with DOR and provide a copy of the most recent W-2 form received before becoming a stay-at-home parent. DOR assumes Personal Tax would require 1 Tax Processing Technician I for every 4,000 credits claimed.

Information Technology ITSD/DOR assumes 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 4 existing CIT III for 2 months, and an additional 2 CIT III for 1 month at a cost of \$41,860.

DOR provided an estimated cost to implement this proposal including 1.0 FTE Tax Collections Tech I and related fringe benefits, equipment, and expenses totaling \$37,623 for FY 2008, \$39,742 for FY 2009, and \$40,935 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.

Oversight assumes that implementation of this proposal would result in the issuance of tax credits of up to \$2 million per year. Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 79 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued. Therefore, under this proposal, if \$2,000,000 of credits are issued, Oversight would assume \$1,660,000 (83%) of credits to be redeemed, reducing Total State Revenues.

This proposal could decrease Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE FUND			
<u>Costs - Department of Revenue</u>			
Personal Service (1 FTE)	(\$17,820)	(\$22,026)	(\$22,686)
Fringe Benefits	(\$7,851)	(\$9,704)	(\$9,996)
Expense and Equipment	<u>(\$5,607)</u>	<u>(\$518)</u>	<u>(\$534)</u>
<u>Total Costs - DOR</u>	<u>(\$31,278)</u>	<u>(\$32,248)</u>	<u>(\$33,216)</u>
<u>Loss - Income Tax</u>			
Stay at home parent tax credit	<u>(\$1,660,000)</u>	<u>(\$1,660,000)</u>	<u>(\$1,660,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND *	<u>(\$1,691,278)</u>	<u>(\$1,692,248)</u>	<u>(\$1,693,216)</u>
* Unknown expected to exceed \$100,000.			
Estimated Net FTE Change for General Revenue Fund	1.0 FTE	1.0 FTE	1.0 FTE
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<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.

FISCAL DESCRIPTION

This proposal would provide an income tax credit for parents who stay home to provide care for young children.

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 Health and Senior Services
Department of Revenue
Department of Social Services
University of Missouri
 Economic and Policy Analysis Research Center



Mickey Wilson, CPA
Director
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