COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3325-02
Bill No.: Perfected HB 1661
Subject: Revenue Dept.; Taxation and Revenue - Income
Type: Original
Date: February 6, 2008

Bill Summary: Would require taxes property taxes paid by certain nonresident taxpayers to be added-back to adjusted gross income.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	($5,800,000 to $7,300,000)	($5,800,000 to $7,300,000)	($5,800,000 to $7,300,000)
Total Estimated Net Effect on General Revenue Fund	**($5,800,000 to $7,300,000)**	**($5,800,000 to $7,300,000)**	**($5,800,000 to $7,300,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
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 2009	FY 2010	FY 2011
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **University of Missouri, Economic Policy Analysis and Research Center** (EPARC) assume this proposal would allow nonresident Missouri income tax filers to deduct property taxes paid in another state, provided that the filer's home state allows Missouri resident taxpayers to deduct property taxes paid in Missouri on that state's nonresident income tax returns.
EAPRC officials stated they did not have information regarding which states allowed such reciprocal property tax deductions and were not able to provide an estimate of the income tax impact of this proposal.

Officials from the **Department of Revenue** (DOR) assume this proposal would have no fiscal impact on their organization.

DOR officials provided an estimate of the IT cost to implement the proposal.

The Office of Administration, Information Technology Services Division (ITSD/DOR) assumes the IT portion of this proposal could be implemented with existing resources; however, if priorities shift, additional FTE/overtime would be needed. ITSD/DOR officials estimate that this proposal could be implemented utilizing two existing CIT III for two months for modifications to MINITS at a total cost of $16,744.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this proposal would not result in additional costs or savings to their organization. BAP officials stated that this proposal would eliminate the add-in to modified adjusted gross income for non-resident taxpayers of the property taxes paid to another state, if such state reciprocates this deduction. Numerous media reports have established that Kansas allows this deduction, while Illinois does not. BAP is unsure which other states also reciprocate.

In response to a proposal in the previous session, (Amendments to SS for SCS for HB 444, 217, 225, 239, 243, 297, 402 & 172, LR 0761-09A, 2007) BAP estimated the fiscal impact of eliminating the deduction for property taxes paid nonresidents on properties outside the state of Missouri as follows.

In Missouri in 2004, those with itemized deductions who claim a real estate (property) tax deduction have an average deduction of $2,065. Of returns with itemized deductions, 91% claim a real estate tax deduction.

ASSUMPTION (continued)

In 2003, there were 116,447 nonresident returns that claimed itemized deductions. If 91% of those returns claim a real estate tax deduction, there would be 105,967 nonresident returns claiming a $2,065 deduction for real estate tax paid to another state.

Based on these assumptions, $218.8 million in taxable income would be added to nonresidents' federal adjusted gross income by this proposal. Assuming that this full amount would be taxed at the 6% tax rate, the revenue gain would be about $13.1 million; however, it is unknown how much of this income might be allocated to Missouri and reported as Missouri taxable income. Therefore, the impact of this section is between $0 and $13.1 million. This proposal would increase General and Total State Revenues.

According to the US Census Bureau, 195,531 workers commute to Missouri from other states. Among these, 44% are from Kansas, 44% are from Illinois, and 12% from other states. Should this proposal apply only to Kansas, implementation could reduce general and total state revenues by ($13.1 million x 44%) = $5.8 million. Should this proposal apply to all states except Illinois, implementation could reduce general and total state revenues by ($13.1 million x 56%) = $7.3 million.

Oversight assumes this proposal would cause a reduction in personal income tax collections due to the restoration of property tax deductions for Missouri nonresident filers who reside in a state which allows a reciprocal deduction for Missouri residents. The actual amount of revenue reduction could vary as other states adopt legislation regarding nonresident income tax deductions. For the purposes of preparing this fiscal note, Oversight will assume the impact of this proposal would be from $5.8 million to $7.3 million.

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
Revenue reduction - nonresident property tax deductions	($5,800,000 to $7,300,000)	($5,800,000 to $7,300,000)	($5,800,000 to $7,300,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($5,800,000 to $7,300,000)**	**($5,800,000 to $7,300,000)**	**($5,800,000 to $7,300,000)**

FISCAL IMPACT - Local Government	FY 2009 (10 Mo.)	FY 2010	FY 2011

$0	**$0**	**$0**

FISCAL IMPACT - Small Business

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

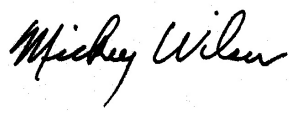
FISCAL DESCRIPTION

This proposal would require taxes property taxes paid by certain nonresident taxpayers to be added-back to adjusted gross income.

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 Administration
Division of Budget and Planning
Department of Revenue
University of Missouri
Economic Policy Analysis and Research Center



Mickey Wilson, CPA
Director
February 6, 2008