

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4711-01
Bill No.: HB 2131
Subject: Taxation and Revenue - Income; Revenue Dept.
Type: Original
Date: February 27, 2008

Bill Summary: Would change the laws regarding the Missouri individual income tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	\$1,000,935,974	\$1,000,933,544	\$1,000,931,551
Total Estimated Net Effect on General Revenue Fund	\$1,000,935,974	\$1,000,933,544	\$1,000,931,551

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
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 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	2	2	2
Total Estimated Net Effect on FTE	2	2	2

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 **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 the 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.

Many joint resolutions are considered by the General Assembly that would require the SOS to pay for publishing in local newspapers the full text of each statewide ballot measure. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.2 million to publish (an average of \$193,000 per issue). Therefore, the SOS assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. However, because these requirements are mandatory, we reserve the right to request funding to meet the cost of our publishing requirements if the Governor and the General Assembly change the amount or eliminate the estimated nature of our appropriation.

ASSUMPTION (continued)

Each year a number of bills are considered by the General Assembly that would require statewide elections to allow the voters to decide the issues in the legislation. The SOS is provided with \$4.3 million in general revenue core funding for the cost of such special elections. The appropriation had historically been an estimated appropriation because the final cost each year is dependent upon the number of special elections required to fill vacant legislative seats and the number of ballot measures approved by the General Assembly. However, in recent years an estimated appropriation has only been provided in presidential primary years. Therefore, the SOS assumes for the purposes of this fiscal note that it should have the full appropriation authority it needs to meet these special election costs. However, we reserve the right to request funding if needed to meet these mandatory requirements.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this proposal would make significant changes to the individual income tax structure in Missouri, raising the top marginal rate from 6% (on income above \$9000) to 9% (on income above \$50,000), and eliminate the deduction for federal income taxes paid. This would increase general and total state revenues, but BAP defers to EPARC for an estimate.

Officials from the **Department of Revenue** (DOR) assume this proposal would change the Missouri personal income tax statutes effective January 1, 2009. The proposal would change the tax rate table, delete the federal tax deduction, and create a system of credits against the tax due. The Department of Revenue would promulgate rules.

DOR assumes that Customer Assistance would require one FTE Tax Collection Technician I for every 15,000 calls a year on the income tax phone line, and one FTE Tax Collection Technician I for every 24,000 calls a year to the delinquency phone line.

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

The Office of Administration, Information Technology Services Division (ITSD/DOR) estimates that this legislation could be implemented utilizing four existing CIT III for four month for modifications to MINITS at an estimated total cost of \$66,976. ITSD/DOR assumes the IT portion of this proposal could be accomplished with existing resources; however, if priorities shift, additional FTE/overtime would be needed to implement.

In summary, DOR estimated the cost to implement this proposal, including two additional FTE and the related equipment and expenditures of \$\$73,452 for FY 2009, \$77,448 for FY 2010, and \$79,772 for FY 2011.

ASSUMPTION (continued)

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employees 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. Oversight has also adjusted the DOR estimate of equipment and expenditure costs in accordance with OA budget guidelines. Finally, Oversight assumes that a limited number of additional employees could be accommodated in existing office space.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center (EPARC)** estimated that this proposal would increase state income tax revenue by \$1,001 million.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
<u>Revenue increase</u> - tax system revision	\$1,001,000,000	\$1,001,000,000	\$1,001,000,000
<u>Cost - Department of Revenue</u>			
Personal Service (2 FTE)	(\$36,700)	(\$45,361)	(\$46,722)
Fringe Benefits	(\$16,229)	(\$20,059)	(\$20,660)
Expense and Equipment	<u>(\$11,097)</u>	<u>(\$1,036)</u>	<u>(\$1,067)</u>
Totals	<u>(\$64,026)</u>	<u>(\$66,456)</u>	<u>(\$68,449)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$1,000,935,974</u>	<u>\$1,000,933,544</u>	<u>\$1,000,931,551</u>
Estimated net FTE effect on General Revenue Fund	2	2	2
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2009 (10 Mo.)	FY 2010	FY 2011
	<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 change the laws regarding the Missouri individual income tax. The proposal would change the tax rate table, delete the federal tax deduction, and create a system of credits against the tax due.

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 Revenue
University of Missouri
 Economic and Policy Analysis Research Center



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Director
February 27, 2008