

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5273-01
Bill No.: HB 2361
Subject: Revenue Department; Tax Credits; Taxation and Revenue - Income; Law Enforcement Officers and Agencies
Type: Original
Date: April 16, 2008

Bill Summary: This proposal authorizes an income tax credit of \$4,000 for peace officers.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|-----------------------------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| FUND AFFECTED | FY 2009 | FY 2010 | FY 2011 |
| General Revenue | (Up to \$58,100,464) | (Up to \$58,104,163) | (Up to \$58,107,286) |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | (Up to \$58,100,464) | (Up to \$58,104,163) | (Up to \$58,107,286) |

| 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 | 3 FTE | 3 FTE | 3 FTE |
| | | | |
| Total Estimated Net Effect on FTE | 3 | 3 | 3 |

- 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 **Department of Public Safety - Alcohol and Tobacco Control, Capitol Police, and Fire Safety** each assume the proposal would not fiscally impact their respective agencies.

Officials from the **Department of Public Safety - Missouri Highway Patrol** state even though "peace officer" as defined in chapter 590 includes the Highway Patrol, because section 135.612.3 states that a copy of the taxpayer's document of commission for a commissioning municipal or county law enforcement agency must be included, the Highway Patrol assumes no fiscal impact for its state troopers.

However, if this assumption is not correct, there would be fiscal impact to the Highway Patrol. Currently, there are 1,119 troopers employed through the Highway Patrol. Based on this number, the cost of this legislation would be \$4,476,000 (1,119 x \$4,000).

Officials from the **Department of Public Safety - Director's Office** state there are currently 14,421 licensed, active, commissioned, full-time peace officers in the state.

Officials from the **Office of Administration - Budget and Planning (BAP)** state this proposal creates an income tax credit for peace officers, up to \$4,000 annually. According to the budget request submitted by the DPS, there are over 16,000 licensed and commissioned officers in this state. Therefore, this proposal could reduce general and total state revenues by up to \$64 million annually.

Officials from the **Department of Revenue (DOR)** state their Personal Tax section would require one Tax Processing Technician I for every 4,000 credits claimed. DOR assumes the cost of this FTE would total roughly \$40,000 annually.

Due to the Statewide Information Technology Consolidation, DOR's response to a proposal will now also reflect the cost estimates prepared by OA-IT for impact to the various systems. As a result, the impact shown may not be the same as previous fiscal notes submitted. In addition, if the legislation is Truly Agreed To and Finally Passed the OA-IT costs shown will be requested through appropriations by OA-IT.

The Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources; however, if priorities shift, additional

ASSUMPTION (continued)

FTE/overtime would be needed to implement. Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 1 existing CIT III for 2 months for modifications to MINITS. The estimated cost is \$8,372.

Oversight has, for fiscal note purposes only, changed the starting salary for DOR's Tax Processing Tech I 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 and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Officials from the **Office of the Secretary of State (SOS)** assume 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.

Oversight will assume the tax credit is only for municipal and county law enforcement peace officers. Oversight is unsure if the number provided by the Department of Public Safety (14,421) is licensed peace officers statewide, or only those that would be eligible to receive the credit. Oversight assumes BAP's estimate of 16,000 officers includes those employed by the state (therefore, not eligible for the credit). Reducing the 16,000 estimate by peace officers from the Highway Patrol (1,119), Department of Natural Resources Park Rangers (50), Department of Conservation Agents (200), Water Patrol Officers (100) and Alcohol and Tobacco Control (50), Oversight assumes there could be roughly 14,500 eligible peace officers in the state. Therefore, Oversight will assume a fiscal impact of up to \$58 million (14,500 x \$4,000) from this proposal. The number could be lower, if DPS's estimate (14,421) includes state employees. Therefore, Oversight will range the fiscal impact of the tax credit 'up to' \$58 million.

Based on DOR's response regarding the need for one additional FTE for every 4,000 credits claimed, **Oversight** will assume DOR will require three new FTE for this program.

| <u>FISCAL IMPACT - State Government</u> | FY 2009 (10 Mo.) | FY 2010 | FY 2011 |
|------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|
| GENERAL REVENUE FUND | | | |
| <u>Loss</u> - tax credit of \$4,000 for each full-time Peace Officer in the state commissioned by a municipal or county law enforcement agency | (Up to \$58,000,000) | (Up to \$58,000,000) | (Up to \$58,000,000) |
| <u>Costs</u> - Department of Revenue | | | |
| Personal Service (3 FTE) | (\$56,703) | (\$70,083) | (\$72,186) |
| Fringe Benefits | (\$25,074) | (\$30,990) | (\$31,920) |
| Expense and Equipment | (\$18,687) | (\$3,090) | (\$3,180) |
| <u>Total Costs</u> - DOR | <u>(\$100,464)</u> | <u>(\$104,163)</u> | <u>(\$107,286)</u> |
| FTE Change - DOR | 3 FTE | 3 FTE | 3 FTE |
| ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND | (Up to <u>\$58,100,464</u>) | (Up to <u>\$58,104,163</u>) | (Up to <u>\$58,107,286</u>) |
| Estimated Net FTE Change for General Revenue Fund | 3 FTE | 3 FTE | 3 FTE |
| | | | |
| <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

Beginning January 1, 2008, this bill authorizes an individual income tax credit of \$4,000 for each tax year in which the taxpayer is licensed and employed as a full-time peace officer. The credit cannot be transferred or sold and is not refundable, but can be carried forward for up to four subsequent taxable years.

The provisions of the bill will expire December 31 six years from the effective date.

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

Department of Public Safety
Department of Revenue
Office of Administration - Budget and Planning
Office of the Secretary of State



Mickey Wilson, CPA
Director
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