

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0864-01
Bill No.: HB 581
Subject: Revenue Dept.; Tax Credits; Taxation and Revenue - Income
Type: Original
Date: March 15, 2011

Bill Summary: Would create the Missouri Earned Income Tax Credit Program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	(\$201,353,234)	(\$201,356,460)	\$201,359,729
Total Estimated Net Effect on General Revenue Fund	(\$201,353,234)	(\$201,356,460)	\$201,359,729

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	7	7	7
Total Estimated Net Effect on FTE	7	7	7

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 2012	FY 2013	FY 2014
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

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 Secretary of State's Office 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 **Department of Revenue (DOR)** assume this proposal would create the Missouri Earned Income Tax Credit Act. Beginning January 1, 2011, a resident individual who is allowed a federal earned income credit would be allowed a credit against the tax otherwise due under Chapter 143 equal to 20% of the federal earned income tax credit.

DOR would create rules and regulations to administer these provisions, and would need to make form changes. DOR and ITSD-DOR would need to make programming changes to various tax systems.

DOR officials stated that in 2009 there were 514,001 Missouri taxpayers who claimed federal earned income credits totaling \$1,121,039,307. If each of them were allowed a credit equal to 20% of their federal credit, the total reduction in tax would equal \$224,207,861.

Administrative impact

DOR officials assume that Personal Tax would require four additional Temporary Tax Employees for key-entry, one additional FTE Revenue Processing Technician I (Range 10, Step L) per 19,000 additional returns to be verified, one additional FTE Revenue Processing Technician I (Range 10, Step L) per 2,400 additional pieces of correspondence received, two additional FTE Revenue Processing Technician I (Range 10, Step L) for compliance assurance once the return has been processed, and one Management Analyst Specialist II (Range 26, Step O) to manage the reporting requirement and contracting requirements.

ASSUMPTION (continued)

DOR officials assume that Collections and Tax Assistance would require one additional FTE Tax Collections Technician I (Range 10, Step L) per 15,000 additional contacts annually on the delinquency phone line, one additional FTE Tax Collections Technician I (Range 10, Step L) per 24,000 additional contact annually on the income tax phone line, and three additional FTE Revenue Processing Technician I (Range 10, Step L) per 4,800 additional contacts in the field offices.

The DOR estimate of cost to implement the proposal including ten additional employees and the related benefits, expense, and equipment totaling \$471,140 for FY 2012. \$483,529 for FY 2013, and \$488,558 for FY 2014.

Oversight notes that DOR provided an estimate of the cost to implement a similar proposal in a previous session which included seven additional FTE. Oversight assumes that the compliance assurance process would be performed after the end of the filing season when IRS data becomes available and that some of the employees added for the program would be available for that process. Oversight will include seven additional employees for fiscal note purposes.

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 expense and equipment cost in accordance with OA budget guidelines, and finally, Oversight assumes that a limited number of additional employees could be accommodated in existing office space.

Oversight assumes the DOR estimate of expense and equipment cost for additional FTE could be overstated. If DOR is able to use existing equipment such as desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly \$5,000 per employee.

IT impact

DOR officials provided an estimate of the IT cost to implement the proposal of \$8,904 based on 336 hours to make programming changes to DOR systems.

ASSUMPTION (continued)

Oversight assumes ITSD-DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes ITSD-DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, ITSD-DOR could request funding through the appropriation process.

Officials from the University of Missouri, Economic and Policy Analysis Research Center (EPARC) assume that if enacted, this bill would create the Missouri Earned Income Tax Credit Act. The act would authorize an individual income tax credit equal to 20% of any earned income tax credit claimed by that taxpayer on their federal income tax return.

EPARC officials prepared an estimate of the impact for this proposal which indicated an increase in General Tax Credits from \$168.096 million to \$369.135 million. This indicates an increase in the General Tax Credits of \$201.039 million and a reduction in Net General Revenue of \$201.039 million.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this proposal would not result in additional costs of saving to their organization.

BAP officials stated that the proposal would create a refundable state earned income credit equal to 20% of the federal credit, and deferred to the Department of Revenue for an estimate of the revenue reduction.

Oversight will use the EPARC estimate of revenue reduction for this proposal. Oversight notes that this proposal would be effective for tax years beginning on or after January 1, 2011 and that tax returns for those years would be filed beginning in January , 2012 (FY 2012)

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE FUND			
<u>Cost - Department of Revenue</u>			
Salaries (7 FTE)	(\$172,910)	(\$204,315)	(\$206,358)
Benefits	(\$90,501)	(\$106,938)	(\$108,008)
Equipment and expense	<u>(\$50,823)</u>	<u>(\$6,207)</u>	<u>(\$6,363)</u>
Total	<u>(\$314,234)</u>	<u>(\$317,460)</u>	<u>(\$320,729)</u>
 <u>Revenue reduction - Earned income tax credit</u>			
	<u>(\$201,039,000)</u>	<u>(\$201,039,000)</u>	<u>(\$201,039,000)</u>
 ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
	<u>(\$201,353,234)</u>	<u>(\$201,356,460)</u>	<u>(\$201,359,729)</u>
 Estimated Net FTE Effect on General Revenue Fund			
	7	7	7
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2012 (10 Mo.)	FY 2013	FY 2014
	<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.

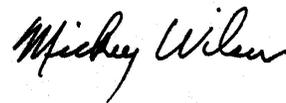
FISCAL DESCRIPTION

The proposed legislation would create the Missouri Earned Income Tax Credit Program.

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
March 15, 2011