COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1937-05
Bill No.: HCS for HB 979 & 885
Subject: Tax Credits; Taxation and Revenue - Income; Revenue Dept.
Type: Original
Date: April 26, 2011

Bill Summary: Would eliminate tax credit programs, enact a flat rate income tax, implement the Streamlined Sales Tax program, and make other changes to tax provisions.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue *	(More than $100,000)	(More than $100,000) to Unknown	(More than $100,000) to Unknown
Total Estimated Net Effect on General Revenue Fund *	**(More than $100,000)**	**(More than $100,000) to Unknown**	**(More than $100,000) to Unknown**

*** Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the increase in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 30 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Conservation Commission	$0	More than $100,000	More than $100,000
Parks, and Soil and Water	$0	More than $100,000	More than $100,000
School District Trust	$0	More than $100,000	More than $100,000
Road	$0	$0	More than $100,000
Road Bond	$0	$0	More than $100,000
Transportation	$0	$0	More than $100,000
Total Estimated Net Effect on Other State Funds	**$0**	**More than $100,000**	**More than $100,000**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	0	31	31
Total Estimated Net Effect on FTE	**0**	**31**	**31**

☐ 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**	**More than $100,000**	**More than $100,000**

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.

ASSUMPTION (continued)

SOS officials also stated that this legislation would eliminate the amount available to be appropriated to public libraries through the Non-resident Athletes and Entertainers tax collection fund as of the end of 2011. Revenue loss is based on estimated income as determined annually by the Department of Revenue. SOS officials indicated a $3.15 million annual revenue reduction for libraries.

Oversight notes that the amounts provided for libraries from the Nonresident Athletes and Entertainers Tax Program would vary significantly from year to year, and notes that current provisions base funding for program recipients on an annual estimate of program revenues by the Commissioner of Administration. Actual funding to the program recipients, however, is subject to appropriation.

Because these provisions would not require any specific appropriations or expenditures to be made for any of the funds involved, Oversight will indicate no fiscal impact for these provisions.

Officials from the **Department of Agriculture** (AGR) assume this proposal would eliminate the Qualified Beef Tax Credit Program, the Family Farm Breeding Livestock Tax Credit Program, the New Generation Cooperative Incentive Tax Credit Program, and the Ag Product Utilization Tax Credit Program which are administered by the Missouri Agricultural and Small Business Development Authority. Fee revenues for these four programs over the past four fiscal years have averaged $286,135; we therefore project the authority would lose this much revenue each year if this proposal is enacted.

Oversight notes that these provisions would not require any appropriation or expenditure of state funds, and will not include the fiscal impact for these provisions in this fiscal note. The potential impact on tax revenues will be addressed separately, as discussed below.

Officials from the **Joint Committee on Administrative Rules** (JCAR) stated that this proposal is not anticipated to have a fiscal impact to their organization beyond its current appropriation.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume this proposal would, enact the “Streamlined Sales Tax” and eliminate all tax credit programs, and would phase-in a reduced flat income tax by 2014.

ASSUMPTION (continued)

Specifically, in the year 2012, the proposal would replace the current individual income tax brackets with a 4.4% tax rate on taxable income and reduce the corporate income tax rate to 5%. In the year 2013, it would reduce the tax rate on individual taxable income as well as the corporate income tax rate to 4%. And in the year 2014, it would reduce the tax rate on individual taxable income to 3.8% and the corporate tax rate to 3.5%.

The proposal would enact new personal and dependent exemptions as follows:

* Single/Head of Household/Qualifying Widow or Widower - $ 5,000
* Married Filing Combined or Separately - $ 5,000
* Dependent Exemption - $ 5,000

EPARC prepared a set of analyses of the changes in income tax revenues for this proposal, as shown in the tables below.

	Corporate Tax Rate	Corporate Tax Liability	Corporate Tax Reduction
Baseline	6.25	$369,862,000	
2012	5.00	$295,890,000	$73,972,000
2013	4.00	$236,712,000	$133,150,000
2014	3.00	$207,123,000	$162,739,000

	Personal Tax Rate	Personal Tax Liability	Personal Tax Reduction
Baseline	Graduated	$4,257,167,000	
2012	4.40%	$4,201,141,000	$56,026,000
2013	4.00%	$3,819,210,000	$437,957,000
2014	3.80%	$3,628,256,000	$628,911,000

ASSUMPTION (continued)

Oversight will use the EPARC estimates of income tax reduction, and assumes for fiscal note purposes that current tax rates would apply to 2011 income taxes for which returns would be filed in January 2012, FY 2012. The 2012 income tax returns filed in January 2013, (FY 2013) would reflect the 2012 rate reductions.

EPARC officials noted that the "Streamlined Sales Tax" portion of this legislation appears to include a shared multi-state tax collection system for internet sales and internet advertising sales, and stated that they do not currently possess the appropriate data to make an accurate estimation of its impact.

Officials from the **Department of Transportation** (MODOT) assume this proposal would create an additional .25% sales and use tax on tangible goods including motor vehicles. This would have a positive impact on MODOT as motor vehicle sales and use tax is dedicated for transportation purposes. MODOT officials provided the following revenue estimates.

*	State Road Fund	$9.4 million
*	State Road Bond Fund	$7.9 million
*	State Transportation Fund	$0.2 million
*	Cities	$1.3 million
*	Counties	$0.9 million

Oversight will use the MODOT estimates for fiscal note purposes.

Officials from the **Department of Economic Development, Division of Workforce Development**, assume this proposal would result in an unknown negative impact in excess of $18 million.

Officials from the **Department of Economic Development, Missouri Development Finance Board** (MDFB) assume this proposal would eliminate all tax credits after December 31, 2011 as well as lower the Missouri Income Tax Rate. The proposal would make authorized and unissued credits obsolete and void as of December 31, 2011 and would require that outstanding credits be redeemed prior to January 1, 2014.

ASSUMPTION (continued)

MDFB noted that the total potential savings from this proposal would be the cumulative amount of credits authorized and unissued, and issued and unredeemed credits. DED disclosed the following information for MDFB on their Form 14 for FY2010.

* There was $78,304,109 in authorized and unissued BUILD credits and $2,184,225 in issued and unredeemed credits.

* There was $19,743,367 in authorized and unissued MDFB Infrastructure Development Credits and $39,134,395 in issued and unredeemed credits.

The legislation would also eliminate two revenue streams for the Board's operations as well as eliminate two programs the Board has historically used in funding public infrastructure. The legislation would prohibit the issuance of Bond Guarantee Tax Credits, as such credits used as collateral on Board owned projects would become null and void. MDFB would have to restructure its financing on its projects and pay down what it could or sell these assets.

Oversight notes that these provisions would not require any appropriation or expenditure of state funds, and will not include the fiscal impact for these provisions in this fiscal note. The potential impact on tax revenues will be addressed separately, as discussed below.

Officials from the **Department of Economic Development, Missouri Housing Development Commission**, (MHDC) assume this proposal would reduce the amount of Missouri Low Income Housing Tax credits (LIHTC) authorized, issued and redeemed, which would increase Total State Revenue. In the short term, however, there would be a greater impact to General Revenue due to companies and individuals redeeming credits that would otherwise have been redeemed over a period of 10 years but would be redeemed in 2012 and 2013.

Affordable Housing Assistance Program (AHAP)

No tax credit could be issued under sections 32.100 to 32.125 after December 31, 2011, and any credit issued before January 1, 2012 could only be redeemed before January 1, 2014. This would result in an eventual reduction of redemptions and corresponding increase in General Revenue in FY 2014. However, taxpayers could potentially redeem AHAP credits in 2012 and 2013, causing an increase in redemptions for these two years, and a reduction in General Revenue.

ASSUMPTION (continued)

Missouri Low Income Housing Tax Credit (LIHTC)

This proposal would eliminate the Low Income Housing Tax Credit on December 31, 2011. Taxpayers could redeem the credits in 2012 and 2013 but no credit could be redeemed after January 1, 2014. The proposal would eliminate the credit as of January 1, 2014, which would create a significant reduction in redemptions and would increase General Revenue.

Taxpayers who would otherwise be redeeming credits over a 10 year period would now have the opportunity to redeem them in years 2012 and 2013, which would have a significant negative impact on General Revenue in those two years.

Because the LIHTC is a 10-year credit, the full impact of the sunset would not impact general revenue based on the existing approved credits. The fiscal impact associated with a reduction in future issuances and redemptions would be projected to start in FY 2014 in the amount of $1,920,000. It is assumed that MHDC would receive approximately $13.2 million in federal tax credits and $6 million in tax exempt bonds. This proposal could result in the reduction of staff, however, staff would continue to have to allocate the federal low income housing tax credits, and no salaries are currently paid through General Revenue.

MHDC officials provided this estimate of the fiscal impact to the General Revenue Fund.

Fiscal Year	AHAP Impact	LIHTC Impact
2012	(Unknown to $757,922)	($115,471,215 to $1,144,764,412)
2013	(Unknown to $757,922)	($115,471,215 to $1,144,764,412)
2014	Unknown to $6,050,000	Unknown to $1,920,000
2015 and after	Unknown to $6,050,000	Unknown to $1,920,000

Oversight notes that these provisions would not require any appropriation or expenditure of state funds, and will not include the fiscal impact for these provisions in this fiscal note. The potential impact on tax revenues will be addressed separately, as discussed below.

ASSUMPTION (continued)

Officials from the **Department of Economic Development, Division of Business and Community Services** (BCS) assume this proposal would repeal several tax credit programs, effective December 31, 2011, which are administered by BCS. DED assumes an unknown positive impact over $100,000 as a result of this proposal. The proposal also states that any tax credits issued before January 1, 2012 must be redeemed before January 1, 2014. Any anticipated positive fiscal impact based on the sunset of programs would be offset by an unknown negative fiscal impact over $100,000 with respect to those programs that require or result in a net positive fiscal impact to the state in order for the benefit or tax credit to be issued. Such programs would include Enhanced Enterprise Zone, Brownfield, and Missouri Quality Jobs.

DED assumes there would be a graduated reduction in FTE over time, at the earliest starting in FY2013, as projects are completed and gradually close out.

The potential positive fiscal impact as a result of the repealed programs is shown below based on estimates of the range of potential positive fiscal impact, with the high end of the range represented by the applicable program cap and the low end represented by the average annual authorizations of tax credits under the applicable programs for fiscal years 2007 through 2009. This range reflects the fact although in any fiscal year there is the potential for tax credit authorizations under these programs up to the applicable cap, actual authorizations are often less than the cap amount.

ASSUMPTION (continued)

Programs Repealed	Statutory Authority	Savings Based on Average Authorizations (FY07-FY09)	Maximum Savings Based on Current Statutory Cap
Neighborhood Assistance	32.115	$15,652,748	$16,000,000
Development Tax Credit	32.115	$1,450,000	$6,000,000
Distressed Area Land Assemblage	99.1205	First year of tax credit authorization was FY2010	$20,000,000
New Business Facility	135.110	$4,581,994	Unknown (program uncapped)
Enterprise Zone	135.220	$13,508,387	Program eliminated by statute and being phased out
Capital SBIC	135.403	Program Cap Exhausted	Program Cap Exhausted
Youth Opportunities	135.460	$5,641,665	$6,000,000
Neighborhood Preservation	135.481	$14,126,322	$16,000000
Certified Capital Companies (CAPCO)	135.503	Program Cap Exhausted	Program Cap Exhausted
Rebuilding Communities	135.535	$1,788,394	$8,000,000
Transportation Development	135.545	Program Eliminated	Program Eliminated by Statute
New Markets	135.680	$24,375,000	$25,000,000
Wine Producers & Grape Growers	135.700	$183,495	Unknown (program uncapped)
Film Producers	135.750	$3,257,918	$4,500,000

ASSUMPTION (continued)

Programs Repealed	Statutory Authority	Savings Based on Average Authorizations (FY07-FY09)	Maximum Savings Based on Current Statutory Cap
SBA Guarantee Fee	135.766	Program Eliminated	Program Eliminated by Statute
Enhanced Enterprise Zone	135.967	$7,023,970	$24,000,000
Family Development Account	208.770	$99,995	$300,000
Historic Preservation	253.550	$170,114,756	$140,000,000 (FY11)
Seed Capital Investment	348.302	Program Cap Exhausted	Program Cap Exhausted
Brownfield Redevelopment	447.708	$22,348,784	Unknown (program uncapped)
Business Incubator	620.495	$500,000	$500,000
New Enterprise Creation Act	620.650	Program Cap Exhausted	Program Cap Exhausted
Quality Jobs	620.1881	$21,993,492	$80,000,000
TOTAL SAVINGS		**$306,646,920**	**$346,300,000**

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assumed a previous version of this proposal (HB 979 LR 1937-02) would not result in additional costs or savings to their organization.

BAP officials stated that they had attempted to provide some analysis on the fiscal impact of the proposal but given the short turn-around time, a thorough review and analysis was not possible.

Tax Credit Provisions

BAP officials noted that the proposal would prohibit the issuance of any tax credits under numerous tax credit programs after 12/31/11. This proposal would effectively eliminate all tax credit programs except for the Senior Citizens Property Tax Credit.

ASSUMPTION (continued)

According to their submissions included in their FY 2012 budget requests, the various state agencies estimated the balance of unredeemed tax credits to be between $628 million (credits already issued) and $2,320 million (including credits authorized but not yet issued). The Department of Economic Development (DED), the Department of Revenue (DOR), and other agencies that administer tax credits can better address the impact of the loss of those programs.

BAP officials also noted that tax credit redemptions excluding the Senior Citizens Property Tax Credit totaled $404.3 million in FY 2010. This proposal would increase General and Total State Revenues to the extent that tax credits are no longer redeemed, but economic activity associated with tax credit programs would be reduced. BAP cannot estimate the potential loss of induced revenues as a result of this proposal.

Income tax provisions

BAP officials stated that the proposal would end the current income tax structure with tax years ending on or before December 31, 2011. For succeeding years a new income tax structure is proposed. The new rate would be 3.125% on all taxable income. Current personal and dependent exemptions would be eliminated, and new exclusions are proposed. Taxable income would be redefined to include the addition of many federal deductions, but would exclude numerous other forms of income such as certain capital gains, social security and public assistance, and a portion of school expenses. BAP does not have data in sufficient detail to provide an estimate of the impact on General and Total State Revenues, and defers to the Department of Revenue or the University of Missouri - Economic and Policy Analysis Research Center for such an estimate.

In response to a previous version of this proposal (HB 979 LR 1937-02) officials from the **Department of Health and Senior Services** (DHSS) stated that this proposal would sunset the Shared Care Tax Credit effective December 31, 2011. DHSS administers the Shared Care Tax Credit, and assumes that tax credits already authorized for calendar year 2011 would be redeemable in FY 2012 (for the tax year 2011). The average claimant redeemed $431 in credits in FY 2010.

DHSS officials assumed that tax credits of approximately $106,068 per year for approximately 246 claimants would not be issued or redeemed.

ASSUMPTION (continued)

DHSS did not indicate the amount of administrative impact, if any, related to this proposal.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration** (DIFP) stated that a previous version of this proposal (HB 979 LR 1937-02) would eventually result in additional premium tax revenue due to the elimination of tax credits used by insurance companies. It is unknown how many insurance companies have outstanding tax credits or when they would choose to utilize them. Premium tax revenue is split 50/50 between the General Revenue Fund and the County Foreign Insurance Fund except for domestic stock property and casualty companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Fund receipts are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year. DIFP officials estimated that the General Revenue Fund and the County Foreign Insurance Fund would have unknown amounts of additional revenue in FY2012, FY2013, and FY2014.

Officials from the **Department of Natural Resources** (DNR) assumed a previous version of this proposal (HB 979 LR 1937-02) would:

* Sunset the Wood Energy Tax Credit as of December 31, 2011. The Wood Energy Tax Credit issues about $3,200,000 in tax credits each year. It is currently due to sunset on June 30, 2013.

* Sunset the Charcoal Producer tax credit December 31, 2011. The Department assumes that Charcoal Producer tax credits previously authorized prior to Aug. 28, 2011 would still be redeemable through 2012.

* Sunset Alternative Fuel Infrastructure tax credit December 31, 2011. Since the tax credit is available only through December 31, 2011 and set at a ceiling of $1 million for that tax year, the impact would be limited to eligible taxpayers that carry over unused tax credits from a previous tax year, in this case, limited to two subsequent years or tax credits that were not used in prior years if the tax credit was subject to apportionment due to a high number of tax credit subscribers.

ASSUMPTION (continued)

The Alternative Fuel Infrastructure Tax Credit is slated to end December 31, 2011 under current statute. Savings could result from any unused credit carried forward for the maximum allowed period of two years.

* Terminate the Energy Efficiency Tax Credit December 31, 2011. The Energy Efficiency Tax Credit is really a deduction and not a tax credit.

* Prohibit the Department of Economic Development from issuing tax credits for various programs after December 31, 2011. The State Historic Preservation Office is responsible for reviewing and approving rehabilitation work for state historic preservation tax credits. Federal and State tax credits can be used in combination for the rehabilitation of commercial or income producing properties. For the purposes of this fiscal note, DNR officials assume that appropriation authority would continue through FY 2012. DNR officials assume this appropriation authority would not continue past the sunset date of the Historic Preservation Tax Credit program, which may result in staff reductions.

* End the Nonresident Athletes and Entertainers Tax and terminate the transfer of funds from the General Revenue Fund to the Historic Preservation Revolving Fund after December 31, 2011. Funding from the Historic Preservation Revolving Fund is used by the department's State Historic Preservation Office (SHPO).

The Historic Preservation Revolving Fund provides financial assistance to aid in the preservation of historically-significant publicly owned properties such as county courthouses, city halls, and educational facilities, through the Missouri Heritage Properties Program. The SHPO also receives federal funding from the National Park Service which requires a 40% state match. The Historic Preservation Revolving Funds provides the majority of the match. The loss of matching state funds may result in a loss of federal funding from the National Parks Service and the elimination of grants to local communities.

ASSUMPTION (continued)

- * Sunset the Remediation Tax Credit as of December 31, 2011. Ending the Brownfields Remediation Tax Credit would likely affect the Brownfields/Voluntary Cleanup Program (BVCP) by decreasing the number of sites that enroll in the program, as many current participants utilize the tax credits. Enrollment for the Voluntary Cleanup Program is typically 50 sites per calendar year.

DNR officials assumed no direct fiscal impact to their organization from the repeal of the Wood Energy, Charcoal Producers, Alternative Fuel Infrastructure, Energy Efficiency, and the Brownfields Remediation Tax Credits.

Officials from the **Department of Revenue** (DOR) provided the following response to this proposal.

DOR officials assume the elimination of tax credits would increase Total State Revenue. The reduction of the individual and corporate tax rates would reduce Total State Revenue, but it is unclear how replacing exemptions and deductions with the greater "personal exemptions" provided in Section 143.111 and the changes related to federal total income would impact the total tax calculation. The streamlined sales tax provisions would have a positive impact on Total State Revenue, and the additional ¼ sales tax would yield roughly $147 million.

Streamlined Sales Tax

The Director of the Department of Revenue (Director) would enter into the Streamlined Sales and Use Tax Agreement (SSUTA) with one or more states to simplify and modernize sales and use tax administration. DOR could create rules and use a joint procurement process, with other member states, of goods and services in furtherance of the SSUTA. Definitions of taxable sales and services would be changed in accordance with SSUTA requirements.

DOR would remit one percent (1%) of the amount collected for all local sales and use taxes collected by the Department and remitted to a political jurisdiction or taxing, to the General Revenue Fund, unless a greater amount is specified.

DOR also cited numerous procedural changes in local taxation which would be required to implement the provisions of the Streamlined Sales and Use Tax agreement.

ASSUMPTION (continued)

Personal Income Tax

* For years ending on or before December 31, 2011 filers would use the existing tax tables.

* For the year beginning on January 1, 2012, the tax would be equal to four and two-fifths percent (4 2/5th %) of the taxpayer's Missouri taxable income,

* for the year beginning on January 1, 2013, the tax would be equal to four percent (4%) of the taxpayer's Missouri taxable income, and

* for all years beginning on or after January 1, 2014, the tax would be equal to three and four-fifths percent (3 4/5th %) of the taxpayer's Missouri taxable income.

Personal exemptions and exclusions would be revised, and deductions and modifications from federal adjusted gross income to Missouri adjusted gross income would be changed.

Corporate Income Tax

* For years ending on or before December 31, 2011, the tax rate would be six and one-fourth percent (6 ¼%) of Missouri taxable income,

* for the year beginning on January 1, 2012, the tax rate would be five percent (5%) of Missouri taxable income,

* for the year beginning on January 1, 2013, the tax rate would be four percent (4%) of Missouri taxable income, and

* For all years beginning on or after January 1, 2014, the tax rate would be three percent (3%) of Missouri taxable income.

ASSUMPTION (continued)

Administrative Impact

DOR officials assume that Personal Tax would require two additional temporary employees for key-entry for each (net additional line) added to the return, and one additional FTE Revenue Processing Technician I (Range 10, Step L) for every 19,000 errors. DOR officials assume this proposal would likely double the number of errors reflected on income tax returns, and DOR would need an additional 15 FTE to work the additional errors. In addition, DOR officials assume Personal Tax would need one additional FTE Revenue Processing Technician I (Range 10, Step L) for every 2,400 pieces of correspondence. DOR officials assume this proposal would likely double the number of pieces of correspondence, and Personal tax would need an additional 10 FTE to answer those contacts.

DOR officials anticipate that Collections & Tax Assistance (CATA) would have additional contacts due to the various number of additions and subtractions from federal income. DOR officials assume CATA would require one additional FTE Tax Collection Technician I (Range 10, Step L) per 15,000 additional contacts annually to the delinquent tax line. In addition, DOR officials assume CATA would require one additional FTE Tax Collection Technician I (Range 10, Step L) per 15,000 additional contacts annually to the non-delinquent tax line. Finally, DOR officials assume that CATA would require one additional FTE Revenue Processing Technician I (Range 10, Step L) per 4,800 additional contacts annually to the Jefferson City Tax Assistance Office. These employees would have CARES equipment and agent licenses would be required.

Finally, DOR officials assume that Excise Tax would require two additional FTE Revenue Processing Technicians (Range 10, Step L) for fuel tax return processing, since DOR would have to determine where each delivery was made in order to properly figure the sales tax to be deducted from the excise tax refund amount.

DOR does not envision an FTE impact for the Sales Tax area, but rule writing would create a significant impact for which we will need additional managerial assistance, and DOR assumes that one additional FTE Management Analyst Specialist I (Range 23, Step Q) would be required.

ASSUMPTION (continued)

The DOR estimate included 31 additional employees; and salaries, benefits, and related equipment and expense totaled $1,256,154 for FY 2012, $1,292,079 for FY 2013, and $1,305,502 for 2014.

Oversight assumes that the Streamlined Sales and Use Tax Agreement would apply primarily to retail transactions by sellers which do not currently have a physical location in the state. Those retailers which do not currently have a physical location in the state would be required to report taxable sales and remit sales tax on Missouri sales. This requirement would likely increase state sales tax collections but the number of current filers would not likely change. Therefore the proposal would not likely have a significant impact on Department of Revenue staffing for sales and use tax processing.

This proposal would also require the state and every political subdivision to adopt, implement, and incorporate by reference all provisions contained within the streamlined sales and use tax agreement. Changes in state regulations would be required to eliminate current regulations which conflict with Streamlined Sales and Use Tax Agreement provisions. It would also appear that new DOR regulations would be required to reference the provisions of the Streamlined Sales and Use Tax Agreement on a statewide basis in order to preserve the uniformity of regulations applicable to all sales in the state.

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.

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

Oversight notes that the income tax provisions would become effective for tax years beginning January 1, 2012 which would be filed beginning in January, 2013 (FY 2013) and will include DOR costs for six months of FY 2013 for those provisions.

ASSUMPTION (continued)

IT Cost to Implement this Proposal

DOR officials assume the IT portion of the fiscal impact would be $274,858, based on 10,372 hours of programming to make changes to various DOR systems.

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.

Additional Sales Tax

This provision would implement an additional sales tax of one-fourth of one percent on transactions as defined in the proposal, for the privilege of engaging in the business of selling tangible personal property or rendering taxable service at retail. The tax would become effective January 1, 2014.

Although they did not respond to our request for information, officials from the **Office of Administration, Division of Budget and Planning** (BAP) assumed that a similar proposal (HCS for HB 408 LR 0098-02) would not result in additional costs or savings to their organization.

BAP officials stated that the proposal would create an additional sales tax of 0.494% beginning in FY 2013. In FY 2010, the current 3% general sales tax totaled $1,731.7 million. This implies the increase in the sales tax rate might generate an additional $285.2 million in general and total state revenues. Similarly, in FY 2008, the 3% general sales tax totaled $1,931.1 million which would imply the additional tax rate might generate $318 million.

Officials from the **University of Missouri, Economic Policy and Analysis Research Center** (EPARC) assumed, in part, that the proposal (HCS for HB 408 LR 0098-02) would, if enacted, increase the current sales tax rate by 0.494 %.

EPARC officials calculated the potential impact of the increased sales tax as follows.

ASSUMPTION (continued)

The net sales tax amount for calendar year 2010 was $1,731.7 million at the current tax rate of 3%. Therefore, the estimated impact of this sales tax increase would be an increase in Net General Revenue of $285.153 million.

Based on actual reported DOR collections, **Oversight** assumes the revenue impact of this provision could be calculated as follows:

Sales tax increase of $0.0025 - revenue increase equal to FY 2010 sales tax collections of $1,790.2 million divided by 3 cents and that result multiplied 0.25 cents.
(($1,790,200,000 / 3) = $596,733,000 / 4) = $149,183,250.

The tax would become effective January 1, 2014, and Oversight assumes that the fiscal impact in FY 2014 would be less than half of the calculated full year impact of $74,591,625.

Oversight also assumes this provision would have no fiscal impact on the Conservation Commission Fund or on the Parks, and Soil and Water Funds because the tax rates for these programs are set by specific provisions in the Missouri Constitution.

Streamlined Sales Tax Program

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assumed that a similar proposal (HB 52 LR 0341-01) would not result in additional costs or savings to their organization. The proposal would require the adoption and implementation of the Streamlined Sales Tax Agreement, to become effective Jan. 1, 2012.

BAP did not have an estimate of the sales tax revenues to be gained from this proposal, but noted that many sales that occur via e-commerce or other remote sellers would be subject to sales tax under this agreement. Two studies of the revenues that Missouri might gain from collecting sales tax on e-commerce provide an estimated range of $108 million (Eisanach & Litan, Feb. 2010) and $210 million (Bruce, Fox, & Luna, April 2009). Both studies are limited to the gains from e-commerce, and do not attempt to estimate other remote sales.

BAP officials assumed the proposal would increase General and Total State Revenues, and local revenues. The proposal would create a 1% collection fee for local sales taxes collected by DOR. This fee would be deposited in GR to offset DOR's costs. This would Increase General and Total State Revenues by an unknown amount.

ASSUMPTION (continued)

Officials from the **Department of Natural Resources** (DNR) assumed a similar proposal (HB 52 LR 0341-01) would implement the Streamlined Sales and Use Tax Agreement. DNR officials assumed that state funds which receive sales taxes would have additional funds from the implementation of this agreement, and assumed the Department of Revenue would be better able to estimate the fiscal impact of the proposal.

Officials from the **Department of Conservation** (MDC) assume this proposal would have an unknown fiscal impact on the Department, but greater than $100,000. The Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax pursuant to the Missouri Constitution. Any increase in sales and use tax collected would increase revenue to the Conservation Sales Tax funds. MDC officials assume the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal. The income tax provisions, tax credit provisions and the ¼ of one percent sales tax increase provision of the legislation do not have a fiscal impact to MDC.

For fiscal note purposes, **Oversight** will indicate additional revenue in excess of $100,000 per year for those state funds that receive sales tax revenues, and for local governments. Oversight will include an unknown increase in collection fees to the General Revenue Fund for collection fees on local taxes not currently subject to the 1% withholding, and Oversight will include an unknown reduction to local governments for that additional withholding.

Oversight also notes that this proposal appears to require implementation of the Streamlined Sales Tax program on January 1, 2013. Accordingly, we have indicated additional revenues for FY 2013, and DOR costs to implement and operate the program for FY 2013 and FY 2014.

ASSUMPTION (continued)

Tax Credit Program Termination

These provisions would prohibit the issuance of credits for Missouri Tax Credit Programs after December 31, 2011.

Oversight has compared total tax credit issuances relative to total tax credit redemptions for several previous years in order to determine a relationship between the two. Oversight has calculated that annual redemptions ranged from 81 percent to 86 percent of annual issuances over this period. Depending on the program, credits redeemed may have been issued that same year or may have been issued several years previously and carried forward to the year it was redeemed. Oversight assumes that tax credits redeemed in a given year would amount to approximately 83 percent of credits issued, reducing Total State Revenues by that amount.

With respect to the termination of tax credit programs, Oversight has shown the fiscal impact of those programs in the fiscal notes for legislation which created the programs and/or made significant changes in the programs. Accordingly, the termination of tax credit programs would result in a positive fiscal impact for the General Revenue Fund and for other funds which had tax credit redemptions. In order to estimate this fiscal impact, Oversight has reviewed the amounts of tax credits issued for the currently active programs over the past five years. Oversight also notes that this proposal would prohibit the issuance of additional tax credits for programs which are not active because they had met their respective program limits or because they were subject to appropriation and no appropriation was made.

Total tax credits issued over the most recent five years for all active programs

	Issued	Expected Redemptions at 83%
Maximum	$909,703,589	$755,053,979
Average	$590,971,856	$490,506,640
Minimum	$388,958,920	$321,175,903

ASSUMPTION (continued)

Accordingly, Oversight will indicate a positive fiscal impact for the General Revenue Fund from $321,172,903 to $755,053,979 for FY 2013 and FY 2014. Oversight will indicate no fiscal impact for FY 2012 since tax credits could be issued until December 31, 2011. This estimated impact is for fiscal note purposes only, and the actual amount of revenue reduction for FY 2012, FY 2013, and FY 2014 could be more or less than the calculated amount due to the redemption of tax credits from prior years.

Tax Credit Redemption Deadline

This proposal includes provisions which would require all tax credits issued before January 1, 2012, to be redeemed before January 1, 2014. As noted above, officials from the **Office of Administration, Division of Budget and Planning** have reported unredeemed tax credits to be between $628 million and $2.3 billion.

Oversight assumes this provision would accelerate the redemption of outstanding tax credits from previous years as well as those credits which would be issued after the effective date of this proposal. Oversight does not have a reliable estimate of actual tax credits issued in previous years but not yet redeemed, and will indicate a negative fiscal impact greater than $100,000 per year for the General Revenue Fund for FY 2012, FY 213, and FY 2014 for this provision.

ASSUMPTION (continued)

Nonresident Athletes and Entertainers Tax Program

This proposal would eliminate the Nonresident Athletes and Entertainers Tax Program as of December 31,2011. In response to another proposal (HB 470 LR 0869-02), officials from the **Office of Administration, Division of Budget and Planning**, have provided an estimate of estimate of program revenues of approximately $30 million per year.

Oversight assumes that the amount of revenues from the Nonresident Athletes and Entertainers Tax Program would vary significantly from year to year, and notes that current provisions base funding for program recipients on an annual estimate of program revenues by the Commissioner of Administration. Actual funding to the program recipients, however, is subject to appropriation. Oversight has reviewed the allocations and transfers of funds from the General Revenue Fund to the various program recipients for recent years and has noted that actual appropriations for program recipients were $12.6 million in FY 2008, $8.7 million in FY 2009, $8.0 million in FY 2010, and $0 in FY 2011.

Because these provisions would not require any specific appropriations or expenditures to be made for any of the funds involved, Oversight will indicate no fiscal impact for these provisions.

FISCAL IMPACT - State Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE FUND			
Additional revenue - Streamlined Sales and Use Tax Agreement	$0	More than $100,000	More than $100,000
Additional revenue - Collection fees withheld from local taxes	$0	Unknown	Unknown
Additional revenue - additional sales tax of one-fourth percent	$0	$0	Less than $74,591,625
Additional revenue - termination of tax credit programs *	$0	$321,175,903 to $755,053,979	$321,175,903 to $755,053,979
Cost - Department of Revenue - Streamlined Sales Tax Program			
Salaries - 3 FTE	$0	($66,670)	($74,972)
Benefits	$0	($34,895)	($39,241)
Equipment and expense	$0	($17,266)	($1,547)
Total	$0	($118,831)	($115,760)
Cost - Department of Revenue - Income tax changes.			
Salaries (28 FTE)	$0	($320,696)	($647,805)
Temporary employees	$0	($6,565)	($13,261)
Benefits	$0	($171,288)	($346,002)
Equipment and Expenses	$0	($159,316)	($16,395)
Total	$0	($657,865)	($1,023,463)

FISCAL IMPACT - State Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
Revenue reduction - revision of personal income tax law	$0	($56,026,000)	($437,957,000)
Revenue reduction - revision of corporate income tax law	$0	($73,972,000)	($133,150,000)
Revenue reduction - accelerated redemption of tax credits outstanding.	(More than $100,000)	(More than $100,000)	(More than $100,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND *	**(More than $100,000)**	**(More than $100,000) to Unknown**	**(More than $100,000) to Unknown**
Estimated Net FTE effect on General Revenue Fund	0	31	31

*** Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the increase in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.**

FISCAL IMPACT - State Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
CONSERVATION COMMISSION FUND			
Revenue increase - Streamlined Sales and Use Tax Agreement	$0	More than $100,000	More than $100,000
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	**$0**	**More than $100,000**	**More than $100,000**

FISCAL IMPACT - State Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
PARKS, AND SOIL AND WATER FUND			
Revenue increase - Streamlined Sales and Use Tax Agreement	$0	More than $100,000	More than $100,000
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND	**$0**	**More than $100,000**	**More than $100,000**
SCHOOL DISTRICT TRUST FUND			
Revenue increase - Streamlined Sales and Use Tax Agreement	$0	More than $100,000	More than $100,000
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**$0**	**More than $100,000**	**More than $100,000**
ROAD BOND FUND			
Additional revenue - additional sales tax of one-fourth percent	$0	$0	$9,400,000
ESTIMATED NET EFFECT ON ROAD BOND FUND	**$0**	**$0**	**$9,400,000**
ROAD FUND			
Additional revenue - additional sales tax of one-fourth percent	$0	$0	$9,400,000
ESTIMATED NET EFFECT ON ROAD FUND	**$0**	**$0**	**$9,400,000**

FISCAL IMPACT - State Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
TRANSPORTATION FUND			
Additional revenue - additional sales tax of one-fourth percent	$0	$0	$200,000
ESTIMATED NET EFFECT ON TRANSPORTATION FUND	**$0**	**$0**	**$200,000**

FISCAL IMPACT - Local Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
LOCAL GOVERNMENTS			
Additional revenue - Streamlined Sales and Use Tax Agreement	$0	More than $100,000	More than $100,000
Revenue reduction - DOR collection fees	$0	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**$0**	**More than $100,000**	**More than $100,000**

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which participate in the current tax credit programs.

FISCAL DESCRIPTION

The proposed legislation would eliminate tax credit programs, enact a flat rate income tax, implement the Streamlined Sales Tax program, and make other changes to tax provisions.

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
Department of Agriculture
Office of Administration
    Division of Budget and Planning
Department of Economic Development
    Division of Business and Community Services
    Division of Workforce Development
    Missouri Development Finance Board
    Missouri Housing Development Commission
Department of Insurance, Financial institutions, and Professional Registration
Department of Health and Senior Services
Department of Natural Resources
Department of Revenue
Department of Social Services
Joint Committee on Administrative Rules
University of Missouri
    Economic and Policy Analysis Research Center

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