COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4423-01
Bill No.: HB 1101
Subject: Tax Credits; Taxation and Revenue- Income; Revenue Department; Taxation and Revenue - Sales and Use
Type: Original
Date: February 29, 2012

Bill Summary: This proposal would authorize Missouri to enter into the multistate Streamlined Sales and Use Tax Agreement, would eliminate all state tax credits, would phase in a flat income tax rate, and would increase the state sales and use tax by .25%.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	($8,498,222) to Unknown	Up to $408,220,774 to Unknown	(Less than $30,192,210) to Unknown
Total Estimated Net Effect on General Revenue Fund	**($8,498,222) to Unknown**	**Up to $408,220,774 to Unknown**	**(Less than $30,192,210) 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 loss 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 29 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Conservation Commission	More than $100,000	More than $100,000	More than $100,000
Parks, and Soil and Water	More than $100,000	More than $100,000	More than $100,000
Road Bond	More than $100,000	More than $100,000	More than $100,000
State Road	More than $100,000	More than $100,000	More than $100,000
State Transportation	More than $100,000	More than $100,000	More than $100,000
Total Estimated Net Effect on Other State Funds	**More than $100,000**	**More than $100,000**	**More than $100,000**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
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 2013	FY 2014	FY 2015
Local Government	**More than $100,000**	**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)

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Office of the Secretary of State, Missouri State Library** (State Library), assume this proposal would eliminate the Non-resident Athletes and Entertainers income tax which currently provides funding for public library districts. State Library officials assume the proposal would result in annual losses of $3.15 million per year to public library districts..

Officials from the **Department of Agriculture** deferred to the Office of Administration as to the fiscal impact of this proposal.

Officials from the **Department of Conservation** (MDC) assume this proposal would have an unknown positive fiscal impact greater than $100,000. Any increase in sales and use tax collected would increase revenue to the Conservation Commission Fund. MDC officials deferred to the Department of Revenue for an estimate of additional collections.

MDC officials also assume that the income tax, tax credit, and additional sales tax provisions would have no fiscal impact to their organization.

Officials from the **Department of Economic Development** (DED) assume this proposal would have a fiscal impact on several divisions.

Missouri Housing Development Commission

Missouri Housing Development Commission (MHDC) officials assume that this proposal would eliminate the Affordable Housing Assistance Program Tax Credit Program (AHAP) and the Missouri Low Income Housing Tax Credit Program (LIHTC) as of December 31, 012, and any tax credits issued could only be redeemed until January 1, 2015.

* This proposal would result in an eventual reduction in AHAP redemptions and a corresponding increase in revenue for the General Revenue Fund in FY 2016. However, tax payers could potentially redeem AHAP credits in FY 2013, FY 2014, and the first half of 2015 resulting in a substantial reduction in revenue to the General Revenue Fund.

ASSUMPTION (continued)

The long range estimated net effect (savings to GR) of the AHAP credit would begin in FY 2015. The total cap for the AHAP credit is $11,000,000. The owners may take a deduction for 55 cents ($6,050,000) of their total investment against Missouri income taxes. Subsequently, the minimum amount of savings in FY 2015 would be unknown and the maximum would be $6,050,000.

* This proposal would also result in elimination of the MOLIHTC in January 2015, which would result in a significant reduction in redemptions, thus increasing revenues to the General Revenue Fund. However, tax payers who would otherwise be redeeming credits over a 10 year period, would now have the opportunity to redeem them in FY 2013, FY 2014, and the first half of FY 2015 resulting in a substantial reduction in revenues to the General Revenue Fund.

  The long range effect (savings to the General Revenue Fund from eliminating the MOLIHTC would begin in FY 2015. The minimum savings would be unknown and the maximum would be $18,500,000.

* MHDC would continue to administer the federal LIHTC; no MHDC staff salaries are currently paid through the General Revenue Fund..

Business and Community Services

This proposal would repeal several tax credit programs, effective December 31, 2012, which are currently administered by the Department of Economic Development, Division of Business and Community Services (BCS). BCS assumes an unknown positive impact over $100,000 as a result of this proposal. BCS also assumes that any positive fiscal impact based on the sunset of programs would be offset by an unknown negative fiscal impact over $100,000 for those programs that require or result in a net positive fiscal impact to the state. Such programs would include Enhanced Enterprise Zone, Brownfield, and Missouri Quality Jobs.

The potential positive fiscal impact as a result of the repealed programs is shown on the following chart. The high end of the range is represented by the applicable program cap and the low end is represented by the average annual authorizations of tax credits for these programs for fiscal years 2008 through 2010. This range reflects the fact although in any fiscal year there is the potential for tax credit authorizations up to the program cap, actual authorizations are often less than the cap.

ASSUMPTION (continued)

Program Repealed	Statutory Authority	Savings Based on Average Authorizations (FY 2008-FY 2010)	Maximum Savings Based on Current Statutory Cap
Neighborhood Assistance	32.115	$14,859,168	$16,000,000
Development Tax Credit	32.115	$2,471,000	$6,000,000
Distressed Area Land Assemblage	99.1205	First year was FY2010	$20,000,000
New Business Facility	135.110	5,093,839	(No program cap)
Enterprise Zone	135.220	$10,396,010	Program eliminated by statute.
Capital SBIC	135.403	Program Exhausted	Program Exhausted
Youth Opportunities	135.460	$5,011,536	$6,000,000
Neighborhood Preservation	135.481	$12,223,176	$16,000000
Certified Capital Companies (CAPCO)	135.503	Program Exhausted	Program Exhausted
Rebuilding Communities	135.535	$1,697,588	$8,000,000
Transportation Development	135.545	Program Eliminated by Statute	Program Eliminated by Statute
New Markets	135.680	$40,235,000	$25,000,000
Wine Producers & Grape Growers	135.700	$121,384	Unknown (No program cap)
Film Producers	135.750	$3,180,914	$4,500,000
SBA Guarantee Fee	135.766	Program Eliminated by Statute	Program Eliminated by Statute
Enhanced Enterprise Zone	135.967	$11,594,352	$24,000,000
Family Development Account	208.770	$58,328	$300,000
Historic Preservation	253.550	$160,506,605	$140,000,000 (FY 2011)
Seed Capital Investment	348.302	Program Exhausted	Program Exhausted

ASSUMPTION (continued)

Brownfield Redevelopment	447.708	$18,673,100	Unknown (No program cap)
Business Incubator	620.495	$282,525	$500,000
New Enterprise Creation	620.650	Program Cap Exhausted	Program Cap Exhausted
Quality Jobs	620.1881	$39,517,409	$80,000,000
Total		$325,921,933	$346,300,000

Workforce Development

This proposal would repeal two tax credit programs administered by the Department of Economic Development, Division of Workforce Development (DWD). DWD assumes an unknown positive impact over $100,000 as a result of this proposal based on the sunset of programs. DWD assumes the positive fiscal impact would be offset by an unknown negative fiscal impact over $100,000 for 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.

DWD provided a table with the high estimate of fiscal impact represented by the program cap and the low estimate represented by the average annual authorizations of tax credits under the programs for fiscal years 2008 through 2010. This range reflects the fact although in any fiscal years there is the potential for tax credit authorizations up to the program cap, actual authorizations are often less than the cap.

Programs Repealed	Statutory Authority	Average Authorizations FY 2008 - FY 2010	Maximum Savings Based on Program Cap
New Jobs Training	178.892	$4,264,759	$55,000,000
Job Retention	178.760	$6,890,805	$45,000,000
Totals		$11,157,572	$100,000,000

ASSUMPTION (continued)

Officials from the **Department of Health and Senior Services** (DOHSS) assume this proposal would sunset the Shared Care Tax Credit program effective December 31, 2012. Tax credits could not be issued after FY 2013. The proposal would also require any tax credits issued prior to January 1, 2013, to be redeemed prior to January 1, 2015. Depending on when individuals redeem their tax credits, a cost savings of $0-$63,508 would be realized for FY 2014 and FY 2015. This savings is based on the amount of tax credits redeemed in FY 2011.

Officials from the **Department of Insurance, Financial Institutions, and Professional Registration** (DIFP) stated that DIFP does not have information as to the number or amount of tax credits that insurance companies may be holding, or how many new tax credits would be issued before December 31, 2012. Therefore, DIFP has no means to arrive at a reasonable estimate of loss in premium tax revenue as a result of tax credits. Premium tax revenue is split 50/50 between General Revenue and 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 distributed to school districts through out the state. County Stock Funds are distributed to the school district and to the county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds would be impacted by tax credits each year.

Officials from the **Department of Natural Resources** (DNR) assume this proposal would change provisions for several DNR programs.

Nonresident Athletes and Entertainers Tax

Section 143.183 RSMo provides for a transfer of revenues from the state income tax generated from nonresident professional athletes and entertainers to the Historic Preservation Revolving Fund to provide funding for existing historic preservation efforts. This proposal would eliminate the program.

Historic Preservation Tax Credits

Section 255.550 provides a Historical Preservation Tax Credit program. This proposal would eliminate the State Historic Rehabilitation Tax Credit Program offered by the Department of Economic Development. The department receives appropriations from the Economic Development Enhancement Fund in part for the review of applications for the State Historic Preservation Tax Credit program.

ASSUMPTION (continued)

The DNR FY 2013 Department Budget Request included $96,732 (2.54 FTE) in Personal Service and $14,437 in Expense and Equipment for these programs..

Streamlined Sales and Use Tax Agreement

This proposal would require the Department of Revenue to promulgate rules to implement the Streamlined Sales and Use Tax Agreement.

The Streamlined Sales and Use Tax Agreement (SSUTA) focuses on improving sales and use tax administration systems for all sellers and for all types of commerce. The Department's Parks and Soils Sales Tax Funds are derived from one-tenth of one percent sales and use tax as provided in the Missouri Constitution. Any increase in sales tax collected would increase revenue to the Parks and Soils Sales Tax Funds.

The department assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Charcoal Producer Tax Credit

Section 135.313 provides this tax credit program. The program would end December 31, 2012, and all tax credits authorized prior to January 1, 2013 could not be redeemed after January 1, 2015.

Brownfield Remediation Tax Credit

Section 447.708 provides this program; and the proposal would end this program as of December 31, 2012. Eliminating the Brownfield Remediation Tax Credit program would likely affect the Brownfield/Voluntary Cleanup Program (BVCP) by decreasing the number of sites that enroll in the Voluntary Cleanup Program, as many current participants utilize tax credits to remediate contaminated properties and promote re-utilization. Enrollment for the Voluntary Cleanup Program is typically 50 sites per calendar year.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would have a fiscal impact on their organization. DOR officials described some of the proposed changes in provisions which would impact their department, and provided an estimate of the administrative impact to their organization.

The DOR estimate of impact to their organization included two additional Temporary Tax Employees, twenty-eight additional FTE Return Processing Technicians (Range 10, Step L), two additional FTE Tax Collection Technicians (Range 10, Step L) and one additional FTE Management Analyst Specialist (Range 23, Step N). The proposal also included CARES phone equipment, license, and call recording equipment for three of the additional FTE. The DOR estimate totaled $1,237,051 for FY 2013, $1,290 for FY 2014, and $1,304,330 for FY 2015.

Oversight assumes the DOR estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2013 could be reduced by roughly $6,000 per new employee.

DOR officials also provided an estimate of the IT impact to implement this proposal of $296,800 based on 11,200 hours of programming to make changes to DOR systems.

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

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 and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines. Because the Streamlined Sales Tax provisions become effective in FY 2014, Oversight will include DOR costs beginning in FY 2014 to implement and operate the program.

ASSUMPTION (continued)

DOR officials also provided an estimate of $147 million in additional revenue for the privilege tax on sales and services.

Oversight will indicate more than $100,000 per year in additional revenue for the General Revenue Fund and for those other state funds which receive state sales tax revenues due to constitutional provisions. This provision would not result in additional revenues for local governments.

Officials from the **Department of Social Services** (DOS) deferred to the Department of Revenue for an estimate of the impact of this proposal on collection agreements and changes in tax policy. DOS officials assume this proposal would not have a significant impact on their organization since DOS has only one-fourth FTE involved in processing the five tax credit programs it administers.

Officials from the **Department of Transportation** (MoDOT) assume this proposal would make several changes to existing tax laws, including implementation of the Streamlined Sales and Use Tax Agreement.

This portion of the proposal would not have a direct fiscal impact on MoDOT, but it would amend existing provisions related to sales taxes for Transportation Development Districts (TDD). First, it would remove the exemption from TDD sales taxes for sales of electricity or electrical current, water and gas (natural or artificial) and sales of service to telephone subscribers, which should have a positive fiscal impact on TDDs. The proposal would also clarify that the Director of Revenue would perform all functions incident to the administration, collection, enforcement, and operation of TDD sales taxes. The proposal would also state that the Director of Revenue could retain 1% of all TDD sales taxes collected as its cost of collection, which would be deposited into the General Revenue Fund. These changes would not have a direct fiscal impact on MoDOT, but would reduce the amount of sales tax revenues for TDDs.

This proposal would make other significant changes to the state's taxation system, including the elimination of all existing state tax credits, and the proposal would make changes to the state income tax rate, which should have an impact on MoDOT.

ASSUMPTION (continued)

However, one change in the bill would have a positive fiscal impact on MoDOT, cities and counties. The proposal would create a new 0.25% general sales tax beginning on January 1, 2015. The additional sales tax would be assessed on all items, including motor vehicles, trailers, etc., and would be distributed to MoDOT, cities and counties as provided in the Missouri Constitution.

Officials from the **University of Missouri** stated that they did not have enough information to determine a specific fiscal impact to their organization.

Streamlined Sales Tax Program

Oversight notes that this proposal would direct the Department of Revenue to implement the Streamlined Sales Tax in Missouri. Oversight assumes the fiscal and administrative impact of this proposal to the Department of Revenue is adequately addressed in their response, and will only address the potential revenue impact in this section of the fiscal note.

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.

The proposal would make numerous changes to the state's tax provisions that will have significant revenue impacts. Time constraints have not allowed a thorough analysis. Additional time is needed to provide a more precise estimate of the impact on state revenues; any updated information will be forwarded as soon as it is available.

Streamlined Sales Tax Program

This proposal would require the adoption and implementation of the Streamlined Sales Tax Agreement. The bill becomes effective Jan. 1, 2014. BAP officials did not have an estimate of the sales tax revenues to be gained from this proposal, but notes that many sellers involved in e-commerce, and other remote sellers would be able to remit sales tax under this agreement.

Two studies of the state and local 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.

ASSUMPTION (continued)

This proposal would increase General and Total State Revenues, and local revenues including those for education.

Section 32.086 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.

Tax Credits

This proposal would prohibit the issuance of most tax credits after 12/31/12, and would prohibit the redemption of most tax credits after 1/1/15. When in effect, this would Increase General and Total State Revenues. Not including the Senior Property Tax Credit, tax credit redemptions totaled $430 million in FY11. These provisions may encourage holders of tax credits to redeem credits sooner than originally intended. Further, these provisions may discourage economic activity. BAP cannot estimate the induced revenue impacts.

Individual Income Tax

This proposal would overhaul the state individual income program tax by completely redefining taxable income; modifying available deductions; and imposing a single tax rate of 4.4% for 2013; 4% in 2014; and 3.8% in 2015. BAP does not have sufficient data to estimate the revenue impacts at this time; an updated response will be provided as information becomes available.

Corporate Income Tax

This proposal would reduce the corporate income tax rate from 6.25% to 5% for 2013, 4% for 2014, and 3.5% for 2015 and all subsequent tax years. Net corporate income tax collections in FY 2011 totaled $306.1 million. Future collections would be as in the table below:

Rate	Tax in Millions	Difference
6.25	$306.1	$0
5.00	$244.9	($61.2)
4.00	$195.9	($110.2)
3.50	$171.4	($134.7)

ASSUMPTION (continued)

General Revenue Sales Tax

Beginning January 1, 2015, the bill would impose an additional sales and use of tax 0.25%. In FY 2011, at 3%, General Revenue Fund sales tax collections totaled $1,810 million. Therefore, this proposal would increase General and Total State Revenues by $150.8 million annually.

Oversight has reviewed the studies cited by BAP and we noted that there are significant differences between the two studies in the methodology used to estimate the level of internet and other remote sales, the proportion of remote sales which would be taxable, and the current level of compliance with existing tax provisions.

The Bruce, Fox, and Luna report suggests that approximately 25% of sales taxes due on e-commerce are uncollected, and that sales tax collections on e-commerce were $26.1 billion for the year 2010. This rough estimate of the uncollected sales tax would indicate that $8.7 billion was uncollected for the United States. If 1.8% of the $8.7 billion was due the state of Missouri, the additional revenue would amount to $156.6 million. The Eisenach and Litan report suggests only $3.8 billion in uncollected sales tax on e-commerce; 1.8% of that amount attributable to Missouri would be $70.2 million.

Information reported by the United States Census Bureau indicates that online retail sales grew at an average rate of 20% per year for the years 2000 to 2007, with lower growth rates for 2007 to 2009. A report by marketing and information technology consultants Forrester Research projected a 10% annual growth rate for the years 2009 through 2015, with online sales accounting for 11% of total retail sales (excluding groceries) by 2015.

Oversight has recently been provided an estimate of Streamlined Sales Tax Program revenue by officials from the Streamlined Sales Tax Governing Board. That estimate was based on comparing population and per capita income information for Missouri with the same information for states currently participating in the Streamlined Sales Tax program. Based on those calculations, Streamlined Sales Tax Governing Board officials estimated that those Missouri state funds which receive sales tax revenues would collect an additional $13.7 million in the first full year of operation.

ASSUMPTION (continued)

Streamlined Sales Tax Governing Board officials stated that the program is currently voluntary; and the member states have agreed to simplify their sales tax programs and contract with third-party transaction processors who collect and remit sales taxes to the member states. Participating multistate retailers agree to collect and remit sales taxes to member states, typically in exchange for an amnesty on prior uncollected sales and use taxes.

Oversight assumes the Governing Board estimate is the most reasonable estimate of potential additional revenue under the current voluntary program. Additional revenue could become available in the future if the United States government approves law changes to make state sales tax laws enforceable on interstate sales.

The $13.7 million in additional collected would be due to the following state funds, and Oversight has also provided an estimate of additional revenues to local governments.

Entity	Tax Rate	
General Revenue Fund	3.000%	$9,738,000
School District Trust Fund	1.000%	$3,246,000
Conservation Commission Fund	0.125%	$324,600
Parks, and Soils Fund	0.100%	$405,800
Local Governments *	Average 3.800%	$12,334,900
Total	NA	$26,049,300

* The average rate for local sales and use tax is calculated based on tax revenues reported by the Department of Revenue for the year ended June 30, 2010.

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 revenues to the General Revenue Fund for collection fees on local taxes not currently subject to the 1% withholding, and will include an unknown revenue reduction to local governments for that additional withholding.

Oversight assumes that the proposed date for implementation of the Streamlined Sales Tax Program of January 1, 2014 would allow collections to be received beginning in FY 2014.

ASSUMPTION (continued)

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume that, if enacted, this proposal would implement the "Streamlined Sales Tax" as well as eliminate all tax credit programs, and would phase-in a reduced flat income tax by 2015. Specifically, in the year 2013, the bill would replace the current individual income tax brackets with a 4.4% flat tax rate on taxable income and reduce the corporate income tax rate to 5%. In the year 2014, it would reduce the flat tax rate on individual taxable income as well as the corporate income tax rate to 4%. And in the year 2015, it would reduce the flat tax rate on individual taxable income to 3.8% and would reduce the corporate income tax rate to 3.5%.

The proposal would also enact new personal and dependent exemptions in the following manner:

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

The proposal would also recalculate Missouri taxable income for individuals in the following manner:

> Wages, salaries, tips, etc. (Federal 1040, line 7) plus Schedule C Income (Federal 1040, line 12) plus Schedule E Income (Federal 1040, line 17) plus Schedule F Income (Federal 1040, line 18) less Health Savings Account Deduction (Federal 1040, line 25) less New Missouri Personal and Dependent Exemptions equals Missouri Taxable Income.

The Missouri Taxable Income calculated would then be multiplied by the corresponding proposed tax rate.

EPARC officials stated that they do not currently possess the appropriate data to make an accurate estimation of additional revenues from the Streamlined Sales Tax Program provisions in this proposal. Therefore, the EPARC analysis was limited to the impact on individual and corporate income tax collections.

ASSUMPTION (continued)

The Personal Income Tax analyses began with a baseline, which consists of the latest available individual income tax data from 2010. Because tax credit program reductions are included in this proposal EPARC adjusted their simulation for the amount of tax credits refunded to taxpayers beyond their gross income tax due in order to estimate the total cost to Net General Revenue. The EPARC baseline indicated that taxpayers received a total of $497.665 million in General and Outstate Tax Credits. EPARC further estimated that $455.41 million of the $497.665 million was used to reduce taxpayers' Net Tax Due, while the remaining $42.255 million was refunded to taxpayers. The refunded amount of $42.255 million was used to adjust the baseline Individual Income Tax Liability, by subtracting this figure from Net Tax Due, $4,481.075. Therefore, the adjusted Baseline figure for Individual Income Tax Liability was $4,438.820,000.

The EPARC data indicated revenue reductions for this proposal as follows:

Year	Proposed Corporate Tax Rate	Reduction in Corporate Tax Revenue	Proposed Individual Tax Rate	Reduction in Individual Tax Revenue
Baseline	6.25%		Graduated	
2013 (FY 2014)	5.00%	$71,263,000	4.40%	$242,681,000
2014 (FY 2015)	4.00%	$128,274,000	4.00%	$624,152,000
2015 (FY 2016)	3.50%	$156,780,000	3.80%	$814,884,000

ASSUMPTION (continued)

Tax Credit Program Termination

Oversight notes that this proposal would implement a date of December 31, 2012 (FY 2013), after which no further tax credits may be issued for the following programs; further, outstanding tax credits for these programs could not be redeemed after January 1, 2015.

Section 32.115 RSMo Neighborhood Assistance
Section 99.1205 RSMo Distressed Areas Land Assemblage
Section 100.286 RSMo Missouri Development Finance Board Infrastructure Development
Section 100.297 RSMo Missouri Development Finance Board Guarantee
Section 100.850 RSMo BUILD
Section 135.090 RSMo Public Safety Officer Surviving Spouse
Section 135.110 RSMo Business Facility
Sections 135.220, 135.225, 135.235 and 135.279 RSMo Enterprise Zone
Section 135.305 RSMo Wood Energy
Section 135.313 RSMo Charcoal Producer
Section 135.327 RSMo Special Needs Adoption and Children In Crisis
Section 135.352 RSMo Low-Income Housing
Section 135.403 RSMo Capital Tax Credit and Community Development
Section 135.460 RSMo Youth Opportunities
Section 135.481 and 135.545 RSMo Neighborhood Preservation
Section 135.490 RSMo Disabled Access- Small Business
Section 135.503 RSMo CAPCO
Section 135.535 RSMo Rebuilding Communities
Section 135.550 RSMo Domestic Violence Shelter
Section 135.562 RSMo Residential Handicapped Access
Sections 135.575 and 191.1056 RSMo Missouri Health Care Access
Section 135.600 RSMo Maternity Home
Section 135.630 RSMo Pregnancy Resource Center
Section 135.647 RSMo Food Pantry
Section 135.679 RSMo Qualified Beef
Section 135.680 RSMo New Markets
Section 135.700 RSMo Wine and Grape Production
Section 135.710 RSMo Alternative Fuel Stations
Section 135.750 RSMo Film Production
Sections 135.967 and 135.968 RSMo Enhanced Enterprise Zone
Section 135.1150 RSMo Residential Treatment Agency

ASSUMPTION (continued)

Section 137.106 RSMo Homestead Preservation
Section 137.1018 RSMo Rolling Stock
Section 148.064 RSMo Bank Franchise
Section 148.400 RSMo Examination Fee
Sections 148.620, 148.655 and 135.657 RSMo Bank S Corporation
Section 178.762 RSMo Job Retention Training
Section 178.894 RSMo Community College New Jobs
Section 208.770 RSMo Family Development Account
Section 253.550 RSMo Historic Preservation
Section 348.302 RSMo Seed Capitol
Section 348.434 RSMo New Generation Cooperative
Section 348.505 RSMo Family Farm Breeding Livestock Loan
Section 375.774 and 135.766 RSMo Property & Casualty Guaranty
Section 376.745 RSMo MO Life and Health Insurance Guarantee
Sections 376.975and 376.980 RSMo MO Health Insurance Pool
Section 447.708 RSMo Brownfield Redevelopment
Section 620.495 RSMo Small Business Incubator
Section 620.650 RSMo New Enterprise Creation
Section 620.1881 RSMo Quality Jobs
Section 660.055 RSMo Shared Care

Oversight assumes this proposal would prohibit the authorization of any additional tax credits after December 31, 2012. However, since it is possible for an agency to authorize and issue all of the available tax credits for a program in FY 2013 before that effective date, Oversight will include increased revenue to the General Revenue Fund beginning in FY 2014. For fiscal note purposes only, Oversight will indicate increased revenue up to the program cap, or equal to the average amount issued over the last five years for programs which do not have a cap**.**

Oversight also assumes this proposal would extend the sunset date for several programs that were set to expire prior to December 31, 2012. The following tax credits would be affected by this provision

Section 135.327 RSMo Children In Crisis Tax Credits which was to expire 8/28/12.
Section 135.630 RSMo Pregnancy Resource Center Tax Credit which was to expire 8/28/12.
Section 135.1150 RSMo Residential Treatment Agency Tax Credit which was to expire 8/28/12.

ASSUMPTION (continued)

For fiscal note purposes only, Oversight will indicate a cost to the General Revenue Fund from the extension of these sunsets. Oversight will indicate a cost in FY 2013 equal to the average amount issued over the last five years.

Finally, Oversight assumes this proposal would extend programs that had already expired prior to the effective date of this proposal. The following tax credits would be affected by this provision.

Section 135.647 Food Pantry already expired on 8/28/11.
Section 137.106 Homestead Preservation Tax Credit already expired on 6/28/10.

For fiscal note purposes only, Oversight will indicate a cost to the General Revenue Fund for the extension of these programs. Oversight will indicate a cost to the state for FY 2013 equal to the average amount issued over the last five years.

Finally, Oversight notes that this proposal would prohibit the redemption of any of the above tax credits after January 1, 2015 (FY 2015). Any savings from tax credits that were issued but not redeemed by that date would be realized in FY 2016 which is outside the period covered by this fiscal note.

FISCAL IMPACT - State Government	FY 2013 (10 Mo.)	FY 2014	FY 2015
GENERAL REVENUE FUND			
Additional Revenue - Streamlined Sales Tax program	$0	More than $100,000	More than $100,000
Additional Revenue - Department of Revenue - 1% Collection fee	$0	Unknown	Unknown
Additional revenue - Privilege tax	$0	$0	More than $100,000
Revenue reduction - Changes to personal income tax law	$0	($242,681,000)	($624,152,000)
Revenue reduction - Changes to corporate income tax law	$0	($71,263,000)	($128,274,000)
Cost - Department of Revenue			
Salaries - 31 FTE	$0	($575,150)	($697,082)
Temporary employees	$0	($13,000)	($15,914)
Employee benefits	$0	($308,779)	($374,323)
Equipment and expense	$0	($192,692)	($33,286)
Total	$0	($1,089,621)	($1,120,605)
Additional Revenue - terminating tax credit programs as of 12/31/12.			
Neighborhood Assistance	$0	Up to $16,000,000	Up to $16,000,000
Distressed Areas Land	$0	Up to $20,000,000	Up to $20,000,000
MDFB Infrastructure	$0	Up to $25,000,000	Up to $25,000,000
MDFB Bond Guarantee	$0	$0	$0
BUILD	$0	Up to $25,000,000	Up to $25,000,000
Surviving Spouse	$0	$16,360	$16,360
Business Facility	$0	$4,618,831	$4,618,831
Enterprise Zone	$0	$9,739,965	$9,739,965

Wood Energy	$0	$3,360,228	$3,360,228
Charcoal Producer	$0	$393,769	$393,769
Special Needs Adoption/CIC	$0	Up to $4,000,000	Up to $4,000,000
Low-Income Housing	$0	$141,205,247	$141,205,247
Capitol	$0	$0	$0
Community Development	$0	$4,684	$4,684
Youth Opportunities	$0	Up to $6,000,000	Up to $6,000,000
Neighborhood Preservation	$0	Up to $16,000,000	Up to $16,000,000
Disabled Access- Small Business	$0	$19,348	$19,348
CAPCO	$0	$0	$0
Rebuilding Communities	$0	Up to $8,000,000	Up to $8,000,000
Domestic Violence Shelter	$0	Up to $2,000,000	Up to $2,000,000
Residential Dwelling Access	$0	Up to $100,000	Up to $100,000
MO Health Care Access	$0	Up to $1,000,000	Up to $1,000,000
Maternity Home	$0	Up to $2,000,000	Up to $2,000,000
Pregnancy Resource	$0	Up to $2,000,000	Up to $2,000,000
Food Pantry	$0	Up to $2,000,000	Up to $2,000,000
Qualified Beef	$0	Up to $3,000,000	Up to $3,000,000
New Markets	$0	Up to $25,000,000	Up to $25,000,000
Wine and Grape Production	$0	$138,916	$138,916
Alternative Fuel Stations	$0	Up to $1,000,000	Up to $1,000,000
Film Production	$0	Up to $4,500,000	Up to $4,500,000
Enhanced Enterprise Zone	$0	Up to $24,000,000	Up to $24,000,000
Residential Treatment	$0	$362,245	$362,245
Homestead Preservation	$0	$1,459,756	$1,459,756
Rolling Stock	$0	$0	$0
Bank Franchise	$0	$2,573,256	$2,573,256

Exam Fee	$0	$9,386,924	$9,386,924
Bank S. Corp	$0	$1,774,499	$1,774,499
Job Retention	$0	Up to $45,000,000	Up to $45,000,000
Community College New Jobs	$0	Up to $55,000,000	Up to $55,000,000
Family Development Account	$0	Up to $300,000	Up to $300,000
Historic Preservation	$0	Up to $140,000,000	Up to $140,000,000
Seed Capital	$0	$0	$0
New Generation Cooperative	$0	Up to $6,000,000	Up to $6,000,000
Family Farm Breeding	$0	Up to $300,000	Up to $300,000
Property & Casualty Guaranty	$0	$3,255,499	$3,255,499
MO Life & Health Insurance Guarantee	$0	$0	$0
MO Health Insurance Pool	$0	$9,496,147	$9,496,147
Brownfield Redevelopment	$0	$21,589,621	$21,589,621
Small Business Incubator	$0	Up to $500,000	Up to $500,000
New Enterprise Creation	$0	$0	$0
Quality Jobs	$0	Up to $80,000,000	Up to $80,000,000
Shared Care	$0	$159,100	$159,100
Total for terminated programs	$0	Up to $723,254,395	Up to $723,254,395
Cost - extension of the sunset			
Children In Crisis	($2,675,221)	$0	$0
Pregnancy Resource	(Up to $2,000,000)	$0	$0
Residential Treatment	($362,245)	$0	$0
Food Pantry	(Up to $2,000,000)	$0	$0
Homestead Preservation	($1,459,756)	$0	$0
Total for extended programs	(Up to $8,497,222)	$0	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($8,498,222) to Unknown**	**Up to $408,220,774 to Unknown**	**(Less than $30,192,210) 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 loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

CONSERVATION COMMISSION FUND			
Additional revenue - Privilege tax	More than $100,000	More than $100,000	More than $100,000
Additional revenue - Streamlined Sales Tax	More than $100,000	More than $100,000	More than $100,000
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	**More than $100,000**	**More than $100,000**	**More than $100,000**
PARKS, AND SOIL AND WATER FUND			
Additional revenue - Privilege tax	More than $100,000	Moe than $100,000	More than $100,000
Additional revenue - Streamlined Sales Tax	More than $100,000	More than $100,000	More than $100,000
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND	**More than $100,000**	**More than $100,000**	**More than $100,000**

ROAD BOND FUND

Additional revenue - Privilege tax	More than $100,000	More than $100,000	More than $100,000
ESTIMATED NET EFFECT ON ROAD BOND FUND	**More than $100,000**	**More than $100,000**	**More than $100,000**

STATE ROAD FUND

Additional revenue - Privilege tax	More than $100,000	More than $100,000	More than $100,000
ESTIMATED NET EFFECT ON STATE ROAD FUND	**More than $100,000**	**More than $100,000**	**More than $100,000**

STATE TRANSPORTATION FUND

Additional revenue - Privilege tax	More than $100,000	More than $100,000	More than $100,000
ESTIMATED NET EFFECT ON STATE TRANSPORTATION FUND	**More than $100,000**	**More than $100,000**	**More than $100,000**

FISCAL IMPACT - Local Government	FY 2013 (10 Mo.)	FY 2014	FY 2015
LOCAL GOVERNMENTS			
Additional Revenue - Privilege tax *	More than $100,00	More than $100,00	More than $100,00
Additional revenue - Streamlined Sales Tax	More than $100,000	More than $100,000	More than $100,000
Revenue reduction - DOR collection fee	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**More than $100,000**	**More than $100,000**	**More than $100,000**

* Distribution from Department of Transportation

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which were eligible for tax credit programs, which would have sales subject to the Streamlined Sales Tax Program or the one-fourth percent privilege tax, or is subject to motor fuel excise tax.

FISCAL DESCRIPTION

This proposal would authorize Missouri to enter into the multistate Streamlined Sales and Use Tax Agreement, would eliminate all state tax credits, would phase in a flat income tax rate for individuals and corporations, and would increase the state sales and use tax by .25%.

Streamlined Sales and Use Tax Agreement

The Director of the Department of Revenue would be required to enter into the multistate Streamlined Sales and Use Tax Agreement and DOR would be required to establish the necessary rules to implement the compliance provisions of the agreement.

FISCAL DESCRIPTION (continued)

Elimination of Tax Credits

All tax credits would be eliminated after December 31, 2012, and any previously issued tax credit must be redeemed before January 1, 2015.

Additional Sales Tax

Beginning January 1, 2015, the proposal would increase the state sales and use tax rate by .25% with the additional revenues to be deposited in the General Revenue Fund.

Flat Income Tax

Beginning January 1, 2013, the proposal would phase in a flat tax rate for individual income tax of 4.4% for tax year 2013, 4% for 2014, and 3.8% for 2015 and all subsequent tax years. The corporate income rate would be reduced from 6.25% to 5% for tax year 2013, 4% for tax year 2014, and 3.5% for 2015 and all subsequent tax years.

An individual filer's Missouri adjusted gross income would be the taxpayer's federal adjusted gross income with deductions for individual retirement accounts; interest on student loans; tuition and fees; moving expenses; self-employment taxes; self-employed health insurance premiums; self-employed SEP, SIMPLE, or qualified retirement plans; penalties for the early withdrawal of savings; alimony paid; individual retirement account deductions; educator expenses; domestic production activities; business expenses of reservists, performing artists, and fee-based governmental officials; interest on state and local obligations other than from a Missouri source; nonqualified distributions from a 529 plan; nonresident property taxes; and adjustments for businesses and net operating losses.

FISCAL DESCRIPTION (continued)

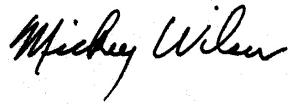
The proposal would authorize deductions from Missouri taxable income for certain capital gains from the sale of a taxpayer's principal residence; personal use of employer-owned property; Social Security benefits; public and private pensions; individual retirement account distributions; workers' compensation benefits; unemployment benefits; public assistance payments; sick pay; inheritances and gifts; alimony received; employment-related expenses that were not reimbursed by the taxpayer's employer; contributions to a medical or health savings account; contributions to a 529 plan; Missouri state or local tax refunds; interest income from Missouri state and local bonds; 25% of education costs over $250 including clothing for school and school supplies for a home, parochial, private, or public school; and a deduction of $5,000 each for the taxpayer, spouse, and dependents to be increased annually based on the federal Consumer Price Index for All Urban Consumers.

The provisions of the bill regarding the Streamlined Sales Tax would become effective January 1, 2014.

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
Joint Committee on Administrative Rules
Office of Administration
    Division of Budget and Planning
Department of Agriculture
Department of Conservation
Department of Economic Development
Department of Health and Senior Services
Department of Insurance, Financial Institutions, and Professional Registration
Department of Natural Resources
Department of Revenue
Department of Social Services
Department of Transportation
University of Missouri
    Economic and Policy Analysis Research Center



Mickey Wilson, CPA
Director
February 29, 2012