

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0566-01  
Bill No.: HB 105  
Subject: Employers; Taxation and Revenue - Income; Revenue Department  
Type: Original  
Date: January 24, 2013

Bill Summary: This proposal would change the minimum amount of payroll tax withholding at which an employer is required to make quarterly payments.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	(More than \$100,000)	\$0	\$0
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(More than \$100,000)</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 7 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

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).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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## FISCAL ANALYSIS

### ASSUMPTION

#### Section 143.221, RSMo: Employer Withholding Tax Payments

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization beyond its current appropriation.

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.

BAP officials noted that this proposal would increase the threshold for annual withholding filers from \$20 to \$100. Withholding taxes that would have otherwise been collected on a quarterly basis in April, July, and October would be delayed until January. This proposal would not directly impact General and Total State Revenues in the aggregate, but could have a cash flow impact across fiscal years.

Assuming the bill is effective Aug. 28, 2013, quarterly payments due in October 2013 would instead be remitted in January 2014. This will have no cash effect overall for FY 2014, though the timing of payments would be different. However, quarterly payments due in April and July of 2014 would not arrive until January 2015. Therefore, revenue collections would be reduced in FY 2014, and collections in FY 2015 would be increased by similar amounts. Similar patterns would follow in subsequent years.

ASSUMPTION (continued)

BAP officials also stated that the Department of Revenue indicated approximately 6,500 businesses would be impacted by this proposal. BAP defers to DOR for estimated withholding amounts.

Officials from the **Department of Revenue (DOR)** assume this proposal would allow an employer to file on an annual basis if that employer had less than \$100 in withholding tax in each of the four preceding quarters. The Director of Revenue could change the amount required for making an annual payment but the amount could not be less than \$100.

Revenue Impact

DOR officials assume this proposal would not reduce Total State Revenue, but would delay the collection of withholding taxes. This proposal would impact approximately 6,500 businesses that could delay the remittance of withholding taxes which would have been paid in April, July, and October until January of the following year.

Administrative Impact

DOR officials assume the Department would need to make forms changes, and the Department and OA - ITSD (DOR) would need to make programming changes to various tax systems.

DOR officials did not include an estimate of cost to implement the proposal, and **Oversight** assumes this proposal could be implemented with existing DOR resources.

IT Impact

DOR officials reported an estimate of the IT impact to implement this proposal of \$1,082 based on an estimated 40 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 also 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.

ASSUMPTION (continued)

**Oversight** assumes this proposal would allow certain employers to delay filing and paying withholding taxes, which are currently due on a quarterly basis, until the following January 31. The amount of tax due and the overall amount of revenue for a tax year would not change; however, implementing this proposal could delay receipt of withholding taxes as explained below.

- \* Taxes withheld for the third calendar quarter ending September 30, 2013 are currently filed and paid by October 31; the proposal would include those taxes in an annual filing due January 31, 2014. Those taxes would be received in the same fiscal year (FY 2014) as currently required, although filing and payment of those funds would be delayed three months. For fiscal note purposes there would be no impact from that delay.
- \* Taxes withheld for the fourth calendar quarter ended December 31, 2013 would be paid January 31, 2014 as currently required.
- \* Taxes withheld for the first calendar quarter ending March 31, 2014 (FY 2014) are currently required to be filed and paid by April 30, 2014. The proposal would include those taxes in an annual filing due January 31, 2015, and they would be paid in January 2015 (FY 2015) instead of in April 2014. That delay would be permanent, as each year's first quarter withholding taxes would be paid the following state fiscal year.
- \* Based on the number of filers provided by the Department of Revenue, the amount of taxes delayed over the end of a state fiscal year could range from (6,500 filers x the current \$20 threshold ) = \$130,000 to (6,500 filers x the new \$100 threshold) = \$650,000.
- \* Taxes withheld for the calendar quarters ending June 30, 2014 and September 30, 2014 would be paid in January, 2015. Those taxes would also be paid in the same fiscal year as currently required but would be delayed six months and three months, respectively, as compared to current requirements.

ASSUMPTION (continued)

For fiscal note purposes, **Oversight** will assume this proposal would result in an unknown revenue reduction greater than \$100,000 for FY 2014. For FY 2015 and subsequent years, the previous year revenue received and the current year revenue deferred to the next year would be approximately equal.

Oversight also notes that this proposal would result in a permanent reduction in the number of payroll tax returns processed; the reduction would likely be somewhat less than three quarters' returns for the affected businesses or (3 x 6500) = 19,500 fewer returns.

In response to a similar proposal in the previous session (HCS for HB 1717, LR 5148-02, 2012) DOR officials assumed that most of the small quarterly return filers would be electronic filers and the proposal would not likely lead to a reduction in the number of tax return errors or phone calls sufficient to allow a staff reduction.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
<b>GENERAL REVENUE FUND</b>			
<u>Additional revenue</u> - previous year withholding taxes paid Section 143.221, RSMo	\$0	More than \$100,000	More than \$100,000
<u>Revenue reduction</u> - delayed filing and payment of withholding taxes Section 143.221, RSMo	(More than <u>\$100,000</u> )	(More than <u>\$100,000</u> )	(More than <u>\$100,000</u> )
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b>(More than <u>\$100,000</u>)</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2014 (10 Mo.)	 FY 2015	 FY 2016
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

### FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which could delay filing and paying withholding taxes.

### FISCAL DESCRIPTION

This proposal would change the amount of payroll tax withholding for annual filing. Currently, an employer is allowed to file an annual withholding tax return instead of four quarterly returns when the aggregate amount withheld is less than \$20 in each of the four preceding quarters. The proposal would change the amount to less than \$100 in each of the four preceding quarters if the employer is not otherwise required to file a withholding return on a quarterly or monthly basis.

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 Revenue



Ross Strope  
Acting Director  
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