

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0994-01
Bill No.: HB 503
Subject: Revenue Department; Taxation and Revenue - General; Licenses - Driver's;
Licenses - Motor Vehicle
Type: Original
Date: February 27, 2013

Bill Summary: This proposal would create the "Paperless Documents and Forms Act."

FISCAL SUMMARY

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

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Conservation Commission	\$0	Unknown	Unknown
State Road	\$0	More than \$100,000	More than \$100,000
State Transportation	\$0	More than \$100,000	More than \$100,000
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	More than \$100,000	More than \$100,000

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

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

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 2014	FY 2015	FY 2016
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** did not respond to our request for information. Accordingly, **Oversight** will use the DOR responses to similar provisions in a proposal in the previous session (HB 1484, LR 5316-01, 2012).

Section 32.029, RSMo. Paperless Documents and Forms:

These provisions would create the "Paperless Documents and Forms Act".

Beginning January 1, 2013, the Department of Revenue would be required to develop and implement a method by which all documents and forms provided to the public by the department, as well as any records, reports, returns, or other documents required by the department, relating to taxes imposed under chapters 142, 143, 144, and 149, and fees imposed under sections 260.262 and 260.273, would be available in an electronic format online and would be capable of electronic submission to the department. The department would be required to implement this program by January 1, 2019.

An electronic form would not be invalid solely because a paper version of the form has been incorporated or otherwise referenced in a rule.

ASSUMPTION (continued)

This program would not prohibit the submission of paper forms to the department or require the department to allow electronic filing of a form that requires a notary or authorization by a third party in order to be effective. In addition, the proposal would not prohibit the submission of paper forms when any other document associated with the form, either expressly or by implication, requires a third party to notarize, authorize, or issue that document.

Cost Savings

Motor Fuel Tax

Systems are already in place to receive electronic reports, so no additional IT cost would be incurred. This proposal would create a savings of approximately \$700 due to reduction in printing and mailing approximately 3,270 forms to 669 licensees.

Individual Income Tax

Currently, 89% of all Missouri individual income tax filers utilize electronic filing or file returns with a 2-D barcode. An increase of 100,000 electronic and 100,000 2D returns annually would allow the department to save nearly \$100,000 in costs for tax season temporary employees. The reduction in tax temporary workers would be due to the reduction in data entry work required for paper returns.

In addition, the electronic return error rate is 13% lower than paper (non 2D) returns. The 2D return error rate is 7% lower than the traditional paper return. With lower error rates, fewer returns would require manual review by error correction (quality review) staff, which must occur before the return can be posted back to the tax system for processing. For every 19,000 fewer error returns needing to go through manual review, the department could reduce error correction staffing by 1 FTE; or the department could reassign staff to a revenue generating position.

Corporate Tax

Currently, approximately 14% of corporate filers use electronic filing. For every 24,960 additional electronic returns received, the department would save one (1) FTE in data entry costs. For every 7,800 fewer error returns that need to be manually reviewed, the department could reduce error correction staffing by one (1) FTE or reassign staff to a revenue generating position. Programming changes would not be necessary as the system already exists.

ASSUMPTION (continued)

Withholding Tax and Sales Tax

Electronic filing would reduce processing and printing costs for sales and withholding tax. With additional returns filed electronically, the department would have fewer returns to manually key into the system. The department projected that up to 240,000 electronic returns could be received a year, which would result in a savings of six (6) FTE (\$136,080); or the department could reassign these employees to revenue generating positions.

The department would also recognize a reduction of up to 89,000 sales and withholding tax returns and booklets, resulting in printing and postage savings of approximately \$51,500.

Section 32.400,RSMo. Electronic Notification:

These provisions would allow the department to use electronic notification for specified information when the taxpayer has consented to its use and has provided an e-mail address in lieu of, and in full satisfaction of, any requirement to provide the notification by mail.

These provisions would result in a significant cost savings due to the reduction in printing, forms and postage by utilizing an electronic notification process. In addition, these provisions would enable better communication, greater convenience and improved customer service to Missouri citizens by allowing the option of notices to be sent electronically or by regular mail, reducing the amount of returned mail, and increasing e-mail inquiries, thus reducing phone calls and written correspondence.

The reduction in printing, forms and postage would result in reduced expenditures to the department. The amount of savings would depend on the level of participation in electronic notification. The department assumed 25% of the population would participate, yielding a total annual savings of approximately \$963,000.

Cost Savings

Driver License Notification

The department projected savings for postage, forms and envelopes of \$128,198 if 25% of the citizens opted for receiving various notifications by email.

ASSUMPTION (continued)

Motor Vehicle Notification

The department projected a savings for postage, forms and envelopes of \$345,208 if 25% of the citizens opted for receiving various notifications by email.

Tax Notification

The department projected a savings for postage, forms, and envelopes of \$489,376 if 25% of the citizens opted for receiving overpay and tax delinquency notices by electronic methods.

If these notifications could be sent electronically to consenting taxpayers, a portion of mailing costs could be eliminated, depending on the level of participation by taxpayers. Additionally, by making refund and other tax information available on-line through a secure web-based application, these provisions could reduce telephone calls and correspondence into the department, thereby allowing staff to focus on collecting additional revenue.

Oversight will assume that the Department of Revenue would have significant savings from this program beginning in FY 2015, and for fiscal note purposes will reflect annual savings of more than \$100,000 for the General Revenue Fund, the State Road Fund, and the State Transportation Fund. Oversight will also reflect Unknown savings to the Conservation Commission Fund.

Oversight assumes there could be a potential reduction in FTE requirements for the department but is not able to estimate such reductions.

Bill as a whole responses

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.

SS:LR:OD

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.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE FUND			
<u>Savings</u> - Department of Revenue			
Electronic filing and notification systems	<u>\$0</u>	More than <u>\$100,000</u>	More than <u>\$100,000</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	More than <u>\$100,000</u>	More than <u>\$100,000</u>
CONSERVATION COMMISSION FUND			
<u>Savings</u> - Department of Revenue			
Electronic filing and notification systems	\$0	Unknown	Unkown
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>\$0</u>	<u>Unknown</u>	<u>Unknown</u>
STATE ROAD FUND			
<u>Savings</u> - Department of Revenue			
Electronic filing and notification systems	<u>\$0</u>	More than <u>\$100,000</u>	More than <u>\$100,000</u>
ESTIMATED NET EFFECT ON STATE ROAD FUND	<u>\$0</u>	More than <u>\$100,000</u>	More than <u>\$100,000</u>

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2014 (10 Mo.)	FY 2015	FY 2016
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STATE TRANSPORTATION FUND

<u>Savings - Department of Revenue</u> Electronic filing and notification systems	\$0	More than <u>\$100,000</u>	More than <u>\$100,000</u>
ESTIMATED NET EFFECT ON STATE TRANSPORTATION FUND	<u>\$0</u>	More than <u>\$100,000</u>	More than <u>\$100,000</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This proposal would enact the Paperless Documents and Forms Act which would authorize the Department of Revenue to use technology to make filing certain forms and sending certain notifications more efficient.

The proposal would require the department to develop and implement, beginning no later than January 1, 2014, and by January 1, 2020, a method by which all documents and forms provided to the public by the department relating to taxes and fees would be available in an electronic format online and would be capable of electronic submission to the department except those that require a notary or authorization by a third party.

FISCAL DESCRIPTION (continued)

The proposal would also allow the department to use electronic notification for specified information when the taxpayer has consented to its use and has provided an e-mail address in lieu of, and in full satisfaction of, any requirement to provide the notification by mail.

The proposal would specify that the creation of state-run tax electronic filing of individual income tax returns is not authorized.

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
Department of Revenue



Ross Strope
Acting Director
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