

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 2190-01  
Bill No.: HB 917  
Subject: Taxation and Revenue - Income; Revenue Department  
Type: Original  
Date: April 9, 2013

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Bill Summary: This proposal would allow for the subtraction of one-half of capital gains income.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	(\$104,660,043)	(\$104,658,569)	(\$104,659,556)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$104,660,043)</b>	<b>(\$104,658,569)</b>	<b>(\$104,659,556)</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>
General Revenue	2 FTE	2 FTE	2 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>2 FTE</b>	<b>2 FTE</b>	<b>2 FTE</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 143.121, RSMo. - Deduction for One - Half of Capital Gains Income:

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 this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Department of Revenue (DOR)** assume this proposal would, beginning January 1, 2013, allow the subtraction of one-half of the amount of any capital gains to the extent such capital gains are included in Federal Adjusted Gross Income. This allowance would not apply to any capital gains that are subtracted under other provisions.

#### Fiscal impact

DOR officials assume the subtraction of capital gains authorized in this proposal would create a significant unknown, negative impact on Total State Revenue. DOR officials were not able to provide an estimate of the revenue reduction but stated the department will continue to determine an estimated impact.

ASSUMPTION (continued)

Administrative impact

In order to implement this proposal, DOR officials assume Personal Tax would require two additional Temporary Tax Employees for key entry, one additional Revenue Processing Technician I (Range 10, Step L) per 19,000 additional errors, and one additional Revenue Processing Technician I (Range 10, Step L) per 2,400 pieces of correspondence. Also, Collections and Tax Assistance would require one additional Tax Collection Technician (Range 10, Step L) for every additional 15,000 contacts annually on the non-delinquent tax line, with CARES equipment, one additional Tax Collection Technician (Range 10, Step L) for every additional 15,000 contacts annually on the delinquent tax line, with CARES equipment, and one additional Revenue Processing Technician I (Range 10, Step L) per 4,800 contacts annually to the field offices, with CARES equipment.

The DOR estimate of administrative cost to implement this proposal including two temporary employees, five additional employees, and related benefits, equipment, and expense, totaled \$223,640 for FY 2014, \$227,931 for FY 2015, and \$230,318 for FY 2016.

**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 could be reduced by roughly \$6,000 per new employee.

**Oversight** notes the procedural and processing requirements associated with implementing this proposal are relatively minor and assumes the proposal could be implemented with two additional employees and two additional temporary employees. Oversight assumes the additional employees may not be required after filers become familiar with the allowance but the additional employees would likely be required in FY 2014, FY 2015, and FY 2016.

**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. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

ASSUMPTION (continued)

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$13,633 based on 504 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.

Officials from the **University of Missouri - Economic and Policy Analysis Research Center (EPARC)** assume this proposal would, if enacted, allow for the subtraction of one-half of capital gains included in federal adjusted gross income to determine Missouri adjusted gross income.

EPARC officials provided a projection that this proposal would reduce Net Tax Due from the baseline estimate of \$4,693.390 million to \$4,588.827 million, a reduction of \$104.563 million.

**Oversight** will use the EPARC estimate and notes this proposal would be effective for tax years beginning on or after January 1, 2013 but would be effective as of August 28, 2013. Although taxpayers could reduce their income tax withholding or reduce quarterly estimated payments for 2013 in anticipation of a tax reduction, only two estimated payments in 2013 would be made before the end of the fiscal year on June 30, 2013. Accordingly, Oversight assumes the first impact of this proposal for 2013 would be with 2013 tax returns filed beginning January 1, 2014 (FY 2014)

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

BAP officials noted this proposal would exempt from taxation one-half of capital gains income, to the extent it is included in Federal Adjusted Gross Income. According to data supplied by EPARC, capital gains have ranged from \$2,317.0 million in 2011, to \$9,015.6 million in 2007. Therefore, this proposal may reduce General and Total State Revenues by \$70 million to \$270 million, assuming the 6% marginal tax rate applies.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
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**GENERAL REVENUE FUND**

Cost - DOR

Deduction for one - half of capital gains  
 Section 143.121

Salaries	(\$51,560)	(\$62,028)	(\$62,648)
Benefits	(\$26,164)	(\$31,476)	(\$31,791)
Equipment and expense	<u>(\$19,319)</u>	<u>(\$2,065)</u>	<u>(\$2,117)</u>
<u>Total cost - DOR</u>	(\$97,043)	(\$95,569)	(\$96,556)

FTE change - DOR	2 FTE	2 FTE	2 FTE
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Revenue reduction - DOR

Deduction for one - half of capital gains  
 income

Section 143.121	<u>(\$104,563,000)</u>	<u>(\$104,563,000)</u>	<u>(\$104,563,000)</u>
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**ESTIMATED NET EFFECT ON  
 GENERAL REVENUE FUND**

	<u><b>(\$104,660,043)</b></u>	<u><b>(\$104,658,569)</b></u>	<u><b>(\$104,659,556)</b></u>
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Estimated Net FTE Effect on General  
 Revenue Fund

2 FTE	2 FTE	2 FTE
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FISCAL IMPACT - Local Government

FY 2014 (10 Mo.)	FY 2015	FY 2016
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<u><b>\$0</b></u>	<u><b>\$0</b></u>	<u><b>\$0</b></u>
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FISCAL IMPACT - Small Business

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

### FISCAL DESCRIPTION

Beginning January 1, 2013, this proposal would authorize an individual income tax deduction for one-half of any capital gains income included in a taxpayer's federal adjusted gross income, except for capital gains already deducted from Missouri adjusted gross income under existing 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  
Joint Committee on Administrative Rules  
Office of Administration - Division of Budget and Planning  
Department of Revenue  
University of Missouri - Economic and Policy Analysis Research Center



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Acting Director  
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