

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3528-01
BILL NO.: HB 1341
SUBJECT: Revenue Department; Taxation and Revenue - General; Taxation and Revenue - Income.
TYPE: Original
DATE: April 26, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	\$0	\$0	\$328,665,561
Total Estimated Net Effect on <u>All</u> State Funds	\$0	\$0	\$328,665,561

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** did not respond to our request for fiscal impact. However, in response to a similar proposal from last year, the DOR stated the proposal would create a reduction in the cost of forms, telefile charges, tax season employees, and full-time employees. The DOR also assumed there would be a reduction in the taxpayer's cost of compliance, however, the amount of savings was unknown at the time.

The DOR stated the proposal would require modifications to the income tax system. The Division of Taxation and Collections estimated the modifications, including programming changes, would require 2,076 hours of overtime at a cost of \$62,425. Modifications to the income tax return and schedules would be completed with existing resources. State Data Center charges would increase due to the additional storage and fields to be captured. Funding in the amount of \$13,510 would be requested for implementation costs and \$945 for ongoing costs per year.

Oversight requested a simulation from Dr. Ed Robb from the **University of Missouri**. The simulation projects for tax year 1998 (returns filed in 1999) an increase in income tax revenues of \$260,399,000. For subsequent years, Oversight assumed a six percent growth rate, which would result in an increase in income tax revenue for tax year 2002 (FY 2003) of \$328,747,738. The effective date of this proposal is for all tax years beginning January 1, 2002.

The **Office of Administration, Budget and Planning** assumed that Dr. Robb is better suited to respond to this proposal.

Officials from the **State Tax Commission** assume this proposal would not fiscally impact their agency.

<u>FISCAL IMPACT - State Government</u>	FY 2001	FY 2002 (6 Mo.)	FY 2003
GENERAL REVENUE FUND			
<u>Revenue - General Revenue Fund</u>			
New income tax structure	\$0	\$0	\$328,747,738
<u>Costs - Department of Revenue</u>			
Programming Costs	\$0	\$0	(\$82,177)

ESTIMATED NET EFFECT ON

GENERAL REVENUE FUND \$0 \$0 \$328,665,561

<u>FISCAL IMPACT - Local Government</u>	FY 2001	FY 2002 (6 Mo.)	FY 2003
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

Small businesses would be expected to be fiscally impacted to the extent that they would incur different income tax rates.

DESCRIPTION

This proposal creates the Flat Tax Act.

The proposal removes all deductions, credits, losses, adjustments, or modifications that reduce the tax liability of a corporation or individual. The proposal does allow adjustments for tax-free bonds and railroad retirement benefits.

The tax rates for individual income taxpayers will be: 3% of Missouri taxable income if federal adjusted gross is \$20,000 or less for a single taxpayer and \$40,000 or less for married taxpayers filing a combined return; 4% of Missouri taxable income if federal adjusted gross is greater than \$20,000 but less than \$60,000 for a single taxpayer and greater than \$40,000 but less than \$120,000 for married taxpayers filing a combined return; and 5% of Missouri taxable income if federal adjusted gross is greater than \$60,000 for a single taxpayer and greater than \$120,000 for married taxpayers filing a combined return.

The tax rate for Missouri corporations will be 4% of Missouri taxable income.

The bill will become effective January 1, 2002.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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SOURCES OF INFORMATION

University of Missouri
Office of Administration
Budget and Planning
Tax Commission

NOT RESPONDING: Department of Revenue



Jeanne Jarrett, CPA

Director

April 26, 2000