

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 4023-01
BILL NO.: HB 1700
SUBJECT: Children and Minors; Revenue Dept.; Taxation and Revenue-General-Income
TYPE: Original
DATE: February 11, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$31,814,173)	(\$116,871,619)	(\$119,562,866)
Total Estimated Net Effect on <u>All</u> State Funds	(\$31,814,173)	(\$116,871,619)	(\$119,562,866)

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 5 pages.

FISCAL ANALYSIS

ASSUMPTION

SECTION 135.820-FEDERAL CHILD CARE TAX CREDIT

DOR staff state that in similar legislation, the Office of Administration estimated there would be 116,000 taxpayers eligible to take this credit. Therefore, the Division of Taxation and Collection will be able to process this credit with existing staff and resources. However, if the number of returns claiming this credit exceeds 260,000, one temporary tax season employee will be needed. If the number of additional errors generated from this legislation exceeds 30,000, then one Tax Processing Technician I will be needed. One Tax Processing Technician I will be needed for every 3,000 additional pieces of correspondence received regarding this legislation. Any FTE will be requested through the normal budget process.

COA staff state that according to the Spring 1998 Statistics of Income Table 2 Missourians received federal child care tax credits of \$49,172,000 in tax year 1996. A 3% growth rate was assumed.

SECTION 135.823-NON-EMPLOYED SPOUSE CHILD CARE TAX CREDIT

DOR staff state that in similar legislation, the Office of Administration estimated there would be 67,886 taxpayers eligible to take this credit. Therefore, the Division of Taxation and Collection will be able to process this credit with existing staff and resources. However, for every 130,000 returns claiming this credit, the Division of Taxation will need one Tax Season Temporary employee, and if the number of additional errors generated from this legislation exceeds 30,000, then one Tax Processing Technician I will be needed. For every 3,000 additional pieces of correspondence received, one Tax Processing Technician I will be needed. Any FTE will be requested through the normal budget process.

COA staff state that according to data from the 1997 Missouri Current Population Survey there are 67,886 spouses who are not employed that have children under 6 and receive no public assistance. With a tax credit of \$400 this yields a fiscal impact of (\$27,154,400). No growth factor was assumed.

ASSUMPTION (continued)

SECTION 135.826-10% TAX CREDIT FOR EMPLOYERS

Officials of the **Department of Revenue (DOR)** state that in similar legislation, the Office of Administration estimated there would be 2,875 taxpayers eligible to take this credit. The Division of Taxation and Collections indicates they will need one Tax Processing Technician I for every 2,000 credits claimed and one Tax Processing Technician I for every 12,000 errors generated by this legislation. Therefore, the Department is requesting one Tax Processing Tech I to process these credits.

Officials from the **Office of Administration (COA)** assume this tax credit would only be applicable to individual and corporate income taxes. As a result, the loss to General Revenue would not occur until FY 2001. According to the 1995 Statistical Abstract of the United States, 2% of employers with less than 100 employees and 7% of employers with 100 or more employees provide child care services. According to Missouri County Business Patterns there were 136,712 employers with less than 100 employees and 3,268 employers with 100 or more employees. Applying the child care percentages to these figures would result in 2,963 employers who could qualify for the tax credit. The average cost per employer for providing child care services in 1992 was \$84,475. A credit of up to 10% or \$8,447 per employer could be received. An annual inflation rate of 3% was assumed.

For purposes of this fiscal note, **Oversight** has allowed the Department of Revenue 2 FTE, the corresponding expense and equipment, the requested overtime and the State Data Center charges.

Officials of the **Secretary of State (SOS)** state this bill allows a tax credit for qualified personal property tax payments. Based on experience with other divisions, the rules, regulations and forms issued by the Department of Revenue could require as many as approximately 6 pages in the Code of State Regulations. For any given rule, roughly half again as many pages are published in the Missouri Register as in the Code because cost statements, fiscal notes and the like are not repeated in the Code. These costs are estimated. The estimated cost of a page in the Missouri Register is \$22.50. The estimated cost of a page in the Code of State Regulations is \$26.50. Costs for this proposal would be \$361.50 for FY 2001. The actual costs could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules, filed, amended, rescinded or withdrawn.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

This proposal would result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
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GENERAL REVENUE FUND

Cost to General Revenue Fund
Department of Revenue (DOR)

Personal Service(2 FTE)	(\$75,237)	(\$41,353)	(\$42,386)
Fringe Benefits	(\$10,338)	(\$12,716)	(\$13,034)
Expense and Equipment	<u>(\$23,292)</u>	<u>(\$2,860)</u>	<u>(\$2,947)</u>
Total <u>Cost</u> -Department of Revenue	(\$108,867)	(\$56,929)	(\$58,367)

Loss to General Revenue Fund

10% Income Tax Credit for Employers	(\$31,705,306)	(\$32,656,465)	(\$33,636,159)
Income tax credit equal to Federal Child Care	\$0	(\$57,003,825)	(\$58,713,940)
Non-employed Spouse Child Care Tax Credit	\$0	(\$27,154,400)	(\$27,154,400)

**ESTIMATED NET EFFECT TO
 GENERAL REVENUE FUND**

<u>(\$31,814,173)</u>	<u>(\$116,871,619)</u>	<u>(\$119,562,866)</u>
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FISCAL IMPACT - Local Government

FY 2001 (6 Mo.)	FY 2002	FY 2003
\$0	\$0	\$0

FISCAL IMPACT - Small Business

Small businesses which provide child care services for employees could be affected by this proposal.

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DESCRIPTION

This bill authorizes a state individual income tax credit equal to any amount claimed as a credit for child and dependent care expenses on the individual's federal income tax return.

The bill also allows an individual income tax credit equal to \$400 for any qualified spouse who has a legal obligation to care for a child 6 years of age or less. The qualified spouse must provide care for the child, cannot be gainfully employed, and may not receive public assistance. The qualified spouse must file an affidavit attesting to being a qualified spouse as defined in the bill.

The bill also authorizes a state income tax credit equal to 10% of certain expenditures made in making child care services available to employees of the taxpayer. To qualify for the credit, the taxpayer must provide subsidized child care services based on need; not discriminate based on race, creed, religion, or national origin; and use a licensed child care facility. Any excess unused credit may be carried forward to future tax years.

Sections 135.820 and 135.823 of this bill will apply to tax years beginning on or after January 1, 2001. Section 135.826 of this bill will apply to the tax year beginning on or after January 1, 2000.

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

Department of Revenue
Office of Administration
Office of Secretary of State



Jeanne Jarrett, CPA
Director
February 11, 2000