

COMMITTEE ON LEGISLATIVE RESEARCH
 OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0219-03
Bill No.: HCS for HB 117
Subject: Revenue Dept.; Taxation and Revenue-General-Income
Type: Original
Date: April 10, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$33,079)	(\$2,988,976)	(\$3,050,916)
Total Estimated Net Effect on <u>All</u> State Funds	(\$33,079)	(\$2,988,976)	(\$3,050,916)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this legislation phases in an earned income tax credit on the Missouri income tax return. For tax years beginning on or after January 1, 2002, a resident individual is authorized a state earned income tax credit equal to one half of one percent of the federal earned income tax credit. Beginning January 1, 2004, a taxpayer is authorized a state earned income tax credit equal to two and one-half percent, and beginning January 1, 2006, a taxpayer is authorized a state earned income tax credit equal to five percent of the federal earned income tax credit. Beginning January 1, 2008, a taxpayer is authorized a state earned income tax credit equal to seven and one-half percent, and beginning January 1, 2010, a taxpayer is authorized a state earned income tax credit equal to ten percent of the federal earned income tax credit. If the credit exceeds the taxpayer's liability, the credit may be refunded or carried forward. The DOR is required to notify any taxpayer who potentially may be eligible for the tax credit and who did not claim the credit on the state tax return.

According to the Federal Statistics of Income Bulletin, there are 393,452 federal returns filed by Missouri residents claiming an earned income tax credit. This credit will have an extra 20 second impact on all returns processed. The Division of Taxation will need one temporary tax season employee (a cost of \$6,067) for every 75,000 returns filed with this credit and one tax season employee for every 2,000 pieces of correspondence received regarding the credit. The Division will also need one Tax Processing Tech I for every 20,000 additional errors generated by this credit.

The Customer Assistance Bureau will need additional tax assistance field personnel to handle the walk in questions until the credit is maximized. One Field Agent is requested for every additional 1,285 walk-ins per year. Also, the Customer Assistance Bureau anticipates the call volume to increase. A telephone collector can handle 2,000 calls per month, therefore, one Telephone Collector is requested for every 24,000 additional calls received regarding this credit.

The DOR will request at this time 2.5 FTE to key and process the tax credits in order to maintain current processing times. All other FTE needed will be requested through the normal budget process once the DOR has processed the credit and has numbers to determine the amount of errors and correspondence received, and the increase in telephone calls and walk-ins.

DOR assumes this legislation will require modifications to the individual income tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 1,125 hours of overtime at a cost of \$29,422. Modifications to the income tax returns 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 \$3,657

ASSUMPTION (continued)

would be requested for implementation costs.

According to officials at the **University of Missouri**, there was a total of \$600.0 million in federal earned income tax credits filed with a Missouri address for 1999. Assuming a 2.5% growth rate would generate federal earned income tax credits of \$646.1 million in FY2003 and \$662.3 million in FY2004. Using the .5% proposed for a Missouri earned income tax credit for tax year 2002 filed in 2003, and tax year 2003 filed in 2004; would calculate to \$3.23 million state revenue loss in FY2003 and would yield a \$3.31 million revenue loss in FY2004.

For purposes of this fiscal note, **Oversight** has assumed that for FY 2003 and FY 2004, 90% of taxpayers who use the federal credit will use the state credit. For FY 2005, Oversight assumes that 95% of taxpayers who use the federal credit will use the state credit. Oversight's estimate is based on the amount of earned income tax credit claimed in Missouri for tax year 1999 according to the University of Missouri Research Center (\$600,000,000). Oversight assumed an annual growth rate of 2.5%. Oversight's assumption is based on conversations with other states that currently have an earned income tax credit in place and the provision in this proposal that requires the Department of Revenue to notify potentially eligible filers.

Oversight assumes the DOR would require verification of eligibility. In the absence of such verification, total credits could be significantly greater than estimated. Oversight notes the long range cost of this proposal is expected to be greater than \$50 million annually.

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

<u>FISCAL IMPACT - State Government</u>	FY 2002	FY 2003	FY 2004
	(10 Mo.)		
GENERAL REVENUE FUND			
<u>Cost to General Revenue Fund</u>			
<u>Department of Revenue (DOR)</u>			
Personal Service (2.5 FTE)	\$0	(\$50,748)	(\$52,017)
Fringe Benefits	\$0	(\$16,914)	(\$17,337)
Expense and Equipment	<u>(\$33,079)</u>	<u>(\$13,864)</u>	<u>(\$1,212)</u>
Total <u>Cost</u> - Department of Revenue	(\$33,079)	(\$81,526)	(\$70,566)
<u>Loss to General Revenue Fund</u>			
Earned income tax credit	\$0	<u>(\$2,907,450)</u>	<u>(\$2,980,350)</u>
ESTIMATED NET EFFECT ON			
GENERAL REVENUE FUND	<u>(\$33,079)</u>	<u>(\$2,988,976)</u>	<u>(\$3,050,916)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

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

DESCRIPTION

This substitute allows a state individual income tax credit equal to a percentage of any earned income tax credit claimed by the taxpayer on the federal income tax return. The percentage of the federal credit allowed will be 0.5% for tax year 2002 and 2003, 2.5% for tax year 2004, 5% for tax year 2006 and 2007, 7.5% for tax year 2008 and 2009, and 10% for tax year 2010 and thereafter. Any amount of credit which exceeds the taxpayer's liability in any tax year will be refunded to the taxpayer or carried forward into future tax years.

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
University of Missouri Research Center

NOT RESPONDING: Office of Administration



Jeanne Jarrett, CPA
Director

April 10, 2001