

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0524-01
Bill No.: SB 93
Subject: Revenue Dept.; Taxation and Revenue-General-Income
Type: Original
Date: January 19, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	\$0	\$0	\$0
Outstanding Schools Trust	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
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	(\$143,400,000)	(\$226,500,000)	(\$291,200,000)

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 the full deductibility of federal income taxes on the Missouri income tax return. A taxpayer may deduct \$10,000 (\$20,000 if filing combined) in 2001, \$15,000 (\$30,000 if filing combined) in 2002, and \$20,000 (\$40,000 if filing combined) in 2003. In 2004, a taxpayer may deduct the full amount of federal income taxes paid on the Missouri return.

The Department anticipates an increase in correspondence in the first three years of the phase-in due to the miscalculation of the federal income tax deduction. The Personal Tax Bureau will need one Tax Processing Technician for every 4,000 additional pieces of correspondence received due to the federal income tax deduction changes.

The **Department of Elementary and Secondary Education (DES)** officials assume this proposal would not fiscally impact its agency.

Officials of the **Office of Administration (COA) - Budget and Planning (BAP)** state this proposal phases in the federal income tax deduction for individuals, \$10,000 for single and \$20,000 for joint in CY01, \$15,000 for single and \$30,000 for joint in CY02, \$20,000 for single and \$40,000 for joint in CY03, and a full deduction in CY04.

The individual income tax loss due to this proposal would be (\$143.4 million) for FY 2002, (\$226.5 million) in FY 2003 and (\$291.2 million) for FY 2004. These estimates are from the Consensus Revenue Forecast and Budget & Planning's Individual Income Tax Simulator. When the FIT deduction is 100% in CY04 the revenue loss in FY05 will be \$464.6 million. The revenue reductions from this proposal will require an equivalent amount of general revenue in order to fully fund the Foundation Formula.

Oversight will reflect the impact of this proposal as a loss to local school districts.

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

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
GENERAL REVENUE FUND			
<u>Loss to General Revenue Fund</u>			
Increase in Federal Income Tax Deduction	(\$143,400,000)	(\$226,500,000)	(\$291,200,000)
<u>Savings to General Revenue Fund</u>			
Reduction in funds transferred to Outstanding Schools Trust Fund	<u>\$143,400,000</u>	<u>\$226,500,000</u>	<u>\$291,200,000</u>
ESTIMATED NET EFFECT TO GENERAL REVENUE FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
 OUTSTANDING SCHOOLS TRUST FUND			
<u>Loss to Outstanding Schools Trust Fund</u>			
Reduction in funds transferred from General Revenue Funds	(\$143,400,000)	(\$226,500,000)	(\$291,200,000)
<u>Savings Outstanding Schools Trust Fund</u>			
Reduction in funds transferred to local school districts	<u>\$143,400,000</u>	<u>\$226,500,000</u>	<u>\$291,200,000</u>
ESTIMATED NET EFFECT TO OUTSTANDING SCHOOLS TRUST FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2002 (10 Mo.)	FY 2003	FY 2004
SCHOOL DISTRICTS			
<u>Loss to Local School Districts</u>			
Reduction in funds transferred from The Outstanding Schools Trust Fund	(\$143,400,000)	(\$226,500,000)	(\$291,200,000)
ESTIMATED NET EFFECT ON SCHOOL DISTRICTS	<u>(\$143,400,000)</u>	<u>(\$226,500,000)</u>	<u>(\$291,200,000)</u>

FISCAL IMPACT - Small Business

Small business would be expected to be fiscally impacted to the extent that they pay income taxes. The increase in the federal income tax deduction would cause small businesses to pay less income tax.

DESCRIPTION

Current law limits the amount of federal income tax an individual can deduct on his or her state income tax return to \$5,000 for single taxpayers and \$10,000 for married taxpayers filing a combined return. This act phases in full deductibility of federal income taxes paid by individuals as follows: for tax year 2001, the limits are increased to \$10,000 for singles and \$20,000 for married filing combined; for tax year 2002, the limits will be \$15,000 for singles and \$30,000 for married filing combined; for tax year 2003, the limits will be \$20,000 for singles and \$40,000 for married filing combined; and for tax years 2004 and thereafter, a full deduction is allowed.

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 - Budget and Planning
Department of Elementary and Secondary Education



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Director
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