

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0976-01
Bill No.: HB 388
Subject: Revenue Dept.; Taxation and Revenue-General and Income
Type: Original
Date: February 15, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$371,900,000)	(\$400,600,000)	(\$431,400,000)
Outstanding Schools Trust	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds	(\$371,900,000)	(\$400,600,000)	(\$431,400,000)

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 repeals the limit on the deductibility of federal income taxes for individual taxpayers on the Missouri income tax return and replaces revenue lost by the Outstanding Schools Trust Fund from General Revenue. DOR assumes there would be little or no administrative impact to their agency.

Officials of the **Office of Administration, Division of Budget and Planning (BAP)** state this proposal would restore full deductibility of the federal income tax deduction for individuals.

The individual income tax loss due to this proposal would be (\$371.9 million) for FY 2002, (\$400.6 million) in FY 2003 and (\$431.4 million) for FY 2004. These estimates are based on the FY02 Consensus Revenue Estimate in the FY02 Executive Budget on page 19. This is an estimate of the revenue impact only, not the impact of replacing the lost revenue to the Outstanding Schools Trust Fund.

Oversight assumes 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 general revenue and not local school districts.

Officials from the **Office of the State Treasurer (STO)** assume this proposal would not fiscally impact their agency.

The **Department of Elementary and Secondary Education (DES)** officials assume this proposal repeals the limit on the amount of federal income tax deducted on the Missouri income tax return. This bill requires General Revenue to replace the amount of revenue from this current limit that now goes to the Outstanding Schools Trust Fund.

The FY01 budget for DES includes a transfer of \$413,400,000 from the General Revenue Fund to the Outstanding Schools Trust Fund. It is unclear from the budget how much of this \$413 million is generated from the current limit on the federal income tax deduction. That detail may be available from the DOR.

DES assumes the proposal will result in a decrease in total state revenue. DES assumes this decrease in General Revenue does not affect DES's funding, the cost of the proposal would be the amount of replacement General Revenue.

Officials of the **Department of Higher Education (CBH)** assume this bill would have an unknown fiscal impact on all agencies as it removes a major source of state revenue. CBH does not receive any proceeds from the Outstanding Schools Trust Fund but would be impacted by the overall loss in state revenue.

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 bill authorizes a 100% state income tax deduction for federal income taxes paid by individuals. The bill also replaces the funds lost to the Outstanding Schools Trust Fund resulting from the increased deduction with general revenue funds.

The bill will apply to tax year 2001 and thereafter.

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

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

SOURCES OF INFORMATION

Department of Revenue
Office of Administration - Budget and Planning
Office of the State Treasurer
Department of Elementary and Secondary Education
Department of Higher Education



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Director
February 15, 2001