COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0484-01
Bill No.: SB 27
Subject: Taxation and Revenue - Income
Type: Original
Date: January 10, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	(Unknown)	$105,400,000 to $365,400,000 to Unknown	$105,400,000 to $365,400,000 to Unknown
Total Estimated Net Effect on General Revenue Fund	**(UNKNOWN)**	**$105,400,000 to $365,400,000 to UNKNOWN**	**$105,400,000 to $365,400,000 to UNKNOWN**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Attorney General** and the **Secretary of State, Administrative Rules** assume this proposal establishes the Missouri Individual Income Flat Tax Act and will not fiscally impact their agencies.

Officials from the **Office of Administration, Administrative Hearing Commission** anticipate that this legislation will not significantly alter their caseload.

Officials from the **Department of Revenue (DOR)** assume this legislation will decrease the number of lines keyed on the income tax return and the number of errors generated by taxpayers. DOR assumes it will also eliminate any deductions and credits administered by the DOR. Therefore, the DOR estimates this proposal will result in an unknown savings in FTE, E&E, printing and postage. This savings is expected to be over $100,000.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume the proposal should not result in additional costs or savings to BAP. BAP assumes this proposal would substantially change the Missouri Individual Income Tax. BAP defers to the University of Missouri for the tax revenue estimate.

ASSUMPTION (continued)

Officials from the **University of Missouri, Research Center (UMRC)** assume the following:

Given the potential for this proposal, UMRC did all the analyses without considering existing income tax credits.

The proposal would set the tax rate at four percent (4%), limit the standard deduction and eliminate the Federal tax deduction.

Revised standard deduction amounts:

Single, filing status A	10,000
Combined, surviving spouse	20,000
Head of household	15,000
Claimed as a dependent	5,000 (new)

UMRC assumes the net effect of this proposal would be zero for FY2004. For the next two fiscal years, 2005 and 2006, the net effect would be $65.4 million, depending on changes on the Federal Individual Income Tax Return. DOR could drastically decrease FTE, also creating a savings to Missouri.

UMRC assumes gross tax due is before all credits. This is UMRC's preferred measure of tax liability because it is impossible to simulate and forecast changes in DED and other state tax credits. It is also not usually an issue because most legislation does not alter credit amounts. As a result, the 4 percent rate that produced a $65.4 million gross tax due increase compared to the current law, would produce an additional estimated $300 million surplus if all of the credits were eliminated as well.

Officials from the **Department of Economic Development (DED)** assume DED would need to identify and notify individual holders of tax credits that the credits could no longer be applied against individual income taxes after January 1, 2004. This would involve sending a notification to an undetermined number of individuals. It would impact almost every tax credit program administered by DED. This would require some temporary staffing to help with mailings. DED would also anticipate an increase in the number of complaints and calls from individual taxpayers no longer qualifying for tax credits or losing tax credits they had previously been authorized. DED would also anticipate some potential legal issues with the nullification of tax credits that were previously issued to individual taxpayers, up to and including litigation.

ASSUMPTION (continued)

DED assumes total state revenue would likely be impacted but in an unpredictable manner. In FY00, about 27% of DED tax credits were claimed against individual income tax liabilities. In FY 2002 there were about $150 million in redeemed credits for programs administered by DED.

DED assumes the need for postage and resources to notify taxpayers that credits can no longer be claimed. DED assumes there may be some court cases filed. DED assumes there may be at least $40 million in DED administered tax credits that would normally be redeemed by taxpayers that this legislation would no longer allow. The state may lose some unknown positive economic benefits due to the inapplicability of tax credits to individual income taxes.

Oversight assumes the repeal of tax credits will create an unknown savings in FTE, Fringe Benefits, and Equipment and Expenses in DED.

Oversight assumes the increase in revenue from the elimination of tax credits could vary greatly based on credit amounts outstanding, number of years eligible for carryover and an unknown number of taxpayers who would have sufficient tax liability to have used their credits. According to the 2002 "Tax Expenditure Report" prepared by the University of Missouri-Columbia, individual income tax credits claimed are estimated to be $237.7 million for 2005 and $241.1 million for 2006. Therefore, **Oversight** assumes the revenue increase from the elimination of tax credits on the Missouri Individual Income Tax Return would be in a range from $40 million to $300 million.

This legislation would increase Total State Revenues.

FISCAL IMPACT - State Government	FY 2004 (6 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
Income - General Revenue			
Increase in Revenue from Flat Tax	$0	$65,400,000	$65,400,000
Increase in Revenue from elimination of tax credits	$0	$40,000,000 to $300,000,000	$40,000,000 to $300,000,000
Total Income	$0	$105,400,000 to $365,400,000	$105,400,000 to $365,400,000

FISCAL IMPACT - State Government	FY 2004 (6 Mo.)	FY 2005	FY 2006
Saving - Dept. of Economic Development			
Personal Service	$0	Unknown	Unknown
Fringe Benefits	$0	Unknown	Unknown
Expense and Equipment	$0	Unknown	Unknown
Total Savings - DED	$0	Unknown	Unknown
Saving - Dept. of Revenue			
Personal Service	$0	Unknown	Unknown
Fringe Benefits	$0	Unknown	Unknown
Expense and Equipment	$0	Unknown	Unknown
Total Savings - DOR	$0	Unknown	Unknown
Costs - Dept. of Economic Development			
Personal Service (temp.)	(Unknown)	$0	$0
Fringe Benefits	$0	$0	$0
Expense and Equipment (postage)	(Unknown)	$0	$0
Total Costs - DED	(Unknown)	$0	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**(UNKNOWN)**	**$105,400,000 to $365,400,000 to UNKNOWN**	**$105,400,000 to $365,400,000 to UNKNOWN**

FISCAL IMPACT - Local Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses could possibly have a reduction in paperwork.

DESCRIPTION

This act creates the Missouri Individual Income Flat Tax Act. The proposal creates a flat tax on individual income of natural persons at a rate of four percent. The act also replaces most additions and subtractions from Missouri adjusted gross income with a larger personal deduction of $10,000 per taxpayer ($20,000 for a combined return, $15,000 for a head of household return and $20,000 for a surviving spouse return). The proposal provides both nonresident and partnership allocation and computation of Missouri individual income tax liability.

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

Attorney General
Secretary of State
Department of Revenue
Office of Administration
 Division of Budget and Planning
 Administrative Hearing Commission
University of Missouri
 Research Center
Department of Economic Development

Mickey Wilson

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Director
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