COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1572-03
Bill No.: Perfected SS for SB 362
Subject: Social Services Department; Taxation and Revenue-Income
Type: Original
Date: April 12, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	($4,108,000)	($16,431,000 to $16,531,000)	($16,789,000 to $16,889,000)
Total Estimated Net Effect on General Revenue Fund*	**($4,108,000)**	**($16,431,000 to $16,531,000)**	**($16,789,000 to $16,889,000)**

*** Includes offsetting income and loss of $0 to $26.8 million.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development** and **Department of Insurance** assume this proposal would not fiscally impact their agency.

Officials from the **Department of Revenue (DOR)** state this proposal would require modifications to individual and corporate income tax systems. The Division of Taxation estimates these modifications, including programming changes, would require 1,384 hours of contract labor. COINS would need to be modified involving 692 hours of programming.

DOR states the number of taxpayers who will contribute and become eligible for this credit is unknown at this time. The Division of Taxation, Personal Tax Bureau would need one Tax Processing Technician I for every 4,000 new credits claimed per year.

The DOR plans to absorb these costs through core appropriations. In the event this is not possible, DOR will request additional FTE or programming funds through the regular budget process.

Officials from the **Department of Social Services (DOS)** assume the DOS can absorb costs of authorizing the issuance of residential treatment agency tax credits with existing staff and appropriations.

DOS states approximately $67,000,000 of General Revenue and Federal funds were paid to residential treatment centers in FY 04.

Oversight has ranged the fiscal impact of the new tax credit from $0 (no taxpayer utilizing the program) to a $26,800,000 ($67,000,000 x 40%).

Oversight assumes the General Revenue Fund would see an increase in funds (accompanying a valid tax credit application) as well as an offsetting decrease in funds (from the utilization of tax credits) in the same year. The timing difference between the purchasing of the tax credit by the agency and the utilization of the tax credit by the donor, could potentially result in a positive cash flow into the General Revenue Fund in one fiscal year and negative cash flow in the next fiscal year. However, Oversight will assume the purchase of the tax credits and the utilization of the tax credits will occur in the same fiscal year.

Oversight will utilize DOS' estimation of $67 million paid to residential treatment centers in FY 2004, and assume that up to $26.8 million (40% x $67 million) in tax credits could be "purchased" from the Department of Social Services by residential treatment agencies.

This proposal could result in an increase or decrease to Total State Revenues, depending upon the timing of the tax credit application versus the utilization of the tax credit.

Section 135.562

In response to a similar proposal, SB 15 (L.R. 0410-01) the following responded:

Officials from the **Office of Administration – Division of Budget and Planning (BAP)** assume this proposal would provide a tax credit for modifying the home of a disabled person. These credits cannot exceed $100,000 in the aggregate. BAP assumes there would be a negative $100,000 impact annually to general and total state revenues. This proposal would have no impact on the BAP.

Officials from the **Department of Social Services** assume this proposal provides tax credits for disabled accommodations and would not fiscally impact their agency.

Officials from the **Department of Revenue (DOR)** assume that they plans to cover the costs of implementing this legislation through its core budget. If it is unable to do so, additional FTE and programming would be requested through the regular budget process. Therefore, **Oversight** assumes no fiscal impact on DOR as a result of this proposal.

Officials from the **Secretary of State (SOS)** assume this bill provides a tax credit for modifying a home for a disabled person. This could create new rules or amendments by the Department of Revenue which could result in SOS publishing rules in the Missouri Register and the Code of State Regulations. This action 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 Code. These costs are estimated. The estimated cost for FY 2006 is $369. The estimated cost of a page in the Missouri Register is $23. The estimated cost of a page in the Code of State Regulations is $27. 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 and 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 appropriations process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Since no information or statistics are available for the modification expenses for housing access, **Oversight** assumes the revenue impact for this proposal would be zero to $100,000 for FY 2007 and FY 2008.

This legislation would result in a loss to Total State Revenue.

Section 1

In response to a similar proposal, SB 18 (L.R. 0124-01) the following responded:

Officials with the **Department of Revenue** (DOR) assumes that additional FTE may be required to handle increased taxpayer inquiries and error corrections. However, such additional personnel would be requested through the regular appropriations process.

Officials with the **Department of Public Safety – Missouri Veterans Commission** used U.S. Department of Veterans Affairs data to assume that 31,024 Missouri veterans are currently receiving pension benefits from the U.S. Department of Defense. Such benefits comprise a monthly total of $45.22 million, resulting in an estimated average annual military pension benefit of $17,490 per veteran.

Oversight assumes that under present law, individuals with a modified state adjusted gross income of less than $25,000 or a married couple with a combined income of $32,000 are eligible for a military pension exemption of up to $6,000 on their state income tax returns.

Information obtained from the **University of Missouri Economic and Policy Analysis Research Center** indicates an average Missouri individual income tax rate over the five most recent tax years (1999 through 2003) of 4.89%. Over the most recent five year tax periods in which such information is available (1998 through 2003), Missouri taxpayers claimed an average of 40.48% of their federal gross adjusted gross incomes (AGI) as exemptions and deductions. Applying that rate to $542.6 million results in $322.96 million of taxable military pension income.

Oversight further assumes that military pension incomes will increase of approximately 2% per year. At an average tax rate of 4.89%, the net reduction in income tax revenues to the General Revenue Fund as a result of this credit would approximate $16.43 million in FY07 ($564.53 million of inflation-adjusted military pension AGI less 40.48% in deductions and exemptions taxed at an average rate of 4.89%) and $16.79 million in FY08 ($576.84 million of inflation-adjusted military pension AGI less 40.48% in deductions and exemptions taxed at an average rate of 4.89%).

Oversight estimates a loss to the General Revenue Fund of $4.1 million for FY06 due to the possibility of reduced withholding and estimated income tax payments for the first six months of calendar year 2006. Oversight assumes 25% of Missouri taxpayers would adjust payments, however it should be noted that this amount could be less depending on taxpayers' awareness of the deductibility of retirement benefits in determining state income tax and their desire to adjust withholdings or estimated payments.

This legislation will decrease Total State Revenues.

FISCAL IMPACT - State Government	FY 2006 (10 Mo.)	FY 2007	FY 2008
GENERAL REVENUE			

Income - money accompanying the application from residential treatment agencies to DOS for tax credit	$0 to $26,800,000	$0 to $26,800,000	$0 to $26,800,000
Loss-Tax credits for contributions made to qualifying residential treatment agencies	($0 to $26,800,000)	($0 to $26,800,000)	($0 to $26,800,000)
Loss - General Revenue Fund Accessible Home Tax Credit Program	$0	($0 to $100,000)	($0 to $100,000)
Loss – General Revenue Military Pension Credits	($4,108,000)	($16,431,000)	($16,789,000)
ESTIMATED NET EFFECT TO GENERAL REVENUE	**($4,108,000)**	**($16,431,000 to $16,531,000)**	**($16,789,000 to $16,889,000)**

FISCAL IMPACT - Local Government	FY 2006 (10 Mo.)	FY 2007	FY 2008
	$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 proposal creates an income tax credit in an amount equal to fifty percent of a donation made to a qualifying residential treatment agency. An agency may apply for tax credits in an aggregate amount that does not exceed forty percent of the payments made by the department of social services to the agency in the preceding twelve months. The tax credit is fully transferable and may be carried forward for up to four years.

Section 135.562

DESCRIPTION (continued)

This proposal will enable a taxpayer making less than $30,000 per year who modifies their home to be accessible to a disabled person who resides with the taxpayer to claim a credit against their income tax for one hundred percent of the costs of modification, up to $2,500. For taxpayers making between $30,000 and $60,000, a credit will be allowed in the amount equal to fifty percent of the costs of modification, up to $2,500. All tax credits will be refundable, up to $2,500 per year. The credits are not transferrable. The credit has a statewide maximum of $100,000 per year.

If any portion of the modification was claimed as a deduction on the taxpayer's federal income tax, then the amount of the tax credit shall be reduced by 1/3.

The credit applies to tax years beginning January 1, 2006, and expires December 31, 2011.

Section 1
Allows a tax credit for those paying income tax on the receipt of any annuity, pension, or retirement allowance provided as a result of service in the armed forces.

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 Social Services
Department of Revenue

Department of Economic Development
Department of Insurance
Office of Administration -
Division of Budget and Planning
Secretary of State
Department of Public Safety
University of Missouri Economic and Policy Analysis Research Center

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