COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3206-01
Bill No.: SB 814
Subject: Children and Minors; Education, Elementary and Secondary; Higher Education; Taxation and Revenue - Income.
Type: Original
Date: January 25, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	$0	(Unknown - more than $354,008)	(Unknown - more than $331,106)
Total Estimated Net Effect on General Revenue Fund	**$0**	**(UNKNOWN - MORE THAN $354,008)**	**(UNKNOWN - MORE THAN $331,106)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
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 2007	FY 2008	FY 2009
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $1,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal should not result in added cost to their agency. BAP states they have no way to determine the number of computers that may be purchased under this program. BAP states there will, however, be an unknown loss to general revenue as a result of this proposal.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** state this legislation creates a tax credit for low-income families against their tax liabilities for purchases of computers used for educational purposes beginning January 1, 2007.

This credit is to be administered by the DOR. It shall be claimed at the time the taxpayer files a return provided the return is filed timely. It is not refundable, but may be carried forward for 3 years. The credit shall be available whether or not the taxpayer opts to use the standard deduction.

Based on the 2004 US Census:

8.7% of Missouri's population consists of families below poverty level (5,586,114 total population X 8.7% = 485,992 individuals) and 11.8% of Missouri's population is individuals below poverty level (5,586,114 total population X 11.8% = 659,161 individuals).

When assuming an impact, the best data DOR can provide would be to take at least 1/4 of the 2.6 million individual income tax returns currently filed (650,000) by the percentage of "families below poverty level" (650,000 X 8.7% = 56,550 anticipated returns filed). DOR is uncertain as to how many of the 2.6 million filers have children or how many people who are currently NOT required to file a Missouri return, will do so in order to claim this new tax credit. DOR is also uncertain how many qualified individuals will actually purchase the computers and file for the credit.

This credit would have to be added to the MO-TC due to the carry-forward provisions, meaning, the taxpayer would not be allowed to file electronically. This increases the cost of processing paper returns and requires additional temporary employees while also delaying the processing of the return.

- For every 32,000 additional paper returns filed, PT will require 1 Temporary Tax Employee (56,550/ 32,000 = 2 Temp. employees).
- In addition, PT will need 1 Temporary Tax Employee due to the additional credit line added to the MO-TC. (1 Temp. employee)
- 1 Tax Processing Technician I for every additional 2,400 pieces of correspondence ((assuming 1/8 of the returns filed require correspondence) - 7,069 / 2,400 = 3 FTE).
- Also 1 Tax Processing Technician I for every additional 19,000 errors generated due to the increased risk of errors on the additional paper returns. Assuming ¼ of the returns filed will have an error- (14,137/ 19,000 = 1 FTE)

ASSUMPTION (continued)

DOR's Information Technology - Would require contract programmers to create a new system within the mainframe in order to track the carry-forward provisions. 3 contract programmers would be required for 10 months (5,190 hours), for a total cost of $358,110 (5,190 X $69 per hour). The program described here could also be used to track some other existing carry forward credits potentially reducing required manual processing.

Customer Services (CA)-

- This legislation will create phone calls on the delinquent tax line for billing due to lack of documentation, this will require 1 Tax Collection Technician I for every additional 15,000 contacts (Assuming only ¼ of the filers create an error - 14,137 / 15,000 = 1 FTE).
- CA will require 1 Tax Collection Technician I for every 24,000 contacts on the income tax line for general inquiries and adjustments (14,137 / 24,000 = .5 FTE).
- CA will also require 1 Tax Processing Technician I for every additional 4,800 contacts in the field offices (Assuming only ¼ of the filers would contact the field offices, which would increase the contacts to 12,000 - 56,550 / 12,000 = 4.5 FTE), this equates to .5 FTE for each of the 8 field offices. So to this, DOR will plan on absorbing with existing staff unless the volume were to increase beyond estimates.

In summary, DOR assumes the need for an additional 5.5 FTE in Jefferson City as well as 3 Temporary Tax employees. DOR assumes the total costs of the personal service, fringe benefits, expense and equipment and programming will total $598,958 in FY 2007, $226,815 in FY 2008 and $232,498 in FY 2009.

Oversight assumes the computer program requested by the DOR would make processing and tracking this tax credit (and all tax credit programs with carryforward provisions) much more efficient and accurate, however, Oversight also assumes the DOR would be able to administer the tax credits created by this program manually. Therefore, Oversight has taken DOR's estimate for programming costs ($358,110) out of the fiscal note.

Oversight also assumes the since the credit is for tax years beginning on or after January 1, 2007, the DOR will not require the additional FTE until FY 2008, and the loss of income to the state from the tax credit will not begin until the tax returns are filed for calendar year 2007, which would begin in January 2008, or FY 2008.

<u>Using DOR's estimate of 56,550 returns filed with this credit, and an average price of a personal computer of $600, **Oversight** assumes the loss in revenue to the state could be $33,930,000 annually.</u> There are many variables that could impact this estimate however, such as the number

ASSUMPTION (continued)

of people meeting the income, dependent children, and educational use requirements of the provision. The taxpayers eligible for this tax credit may not be able to utilize the credit over the three year period. Also, the number of taxpayers who take advantage of this program could be substantially different from those estimated by DOR (higher or lower). Therefore, Oversight will assume this proposal will result in a reduction in income of an unknown amount, but greater than $100,000.

This proposal will reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE FUND			
Costs - Department of Revenue			
Personal Service (5.5 FTE)	$0	($132,858)	($136,179)
Fringe Benefits	$0	($58,537)	($60,000)
Expenses and Equipment	$0	($39,919)	($11,666)
Temporary Employees	$0	($22,694)	($23,261)
Total Costs - DOR	$0	($254,008)	($231,106)
Loss - Tax credit for purchase of personal computer	$0	(Unknown - more than $100,000)	(Unknown - more than $100,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**$0**	**(Unknown - more than $354,008)**	**(Unknown - more than $331,106)**

FISCAL IMPACT - Local Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

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

DESCRIPTION

The proposal provides a taxpayer that meets the definition of a "qualified individual household" and has primary custody of one or more dependent children, a tax credit equal to the purchase price of a personal computer purchased by the taxpayer for educational use by such taxpayer's dependent children during tax years beginning on or after January 1, 2007. The tax credit is non-refundable, but may be carried forward for three years. The credit is available regardless of whether the taxpayer elects to take a standard deduction.

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
Office of the Secretary of State

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