

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3618-01  
Bill No.: SB 1205  
Subject: Office of Administration; Public Assistance; Taxation and Revenue - Income;  
 State Treasurer; Utilities  
Type: Original  
Date: March 29, 2006

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	(\$3,185,000 to \$3,349,561)	(\$6,370,000)	(\$6,370,000)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$3,185,000 to \$3,349,561)</b>	<b>(\$6,370,000)</b>	<b>(\$6,370,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
School District Trust	\$2,600,000	\$5,200,000	\$5,200,000
Conservation	\$325,000	\$650,000	\$650,000
Parks and Soils	\$260,000	\$520,000	\$520,000
Utilicare Stabilization	\$21,435,000	\$42,870,000	\$42,870,000
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$24,620,000</b>	<b>\$49,240,000</b>	<b>\$49,240,000</b>

Numbers within parentheses: ( ) indicate costs or losses.  
 This fiscal note contains 7 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Local Government</b>	<b>\$5,900,000</b>	<b>\$11,800,000</b>	<b>\$11,800,000</b>

**FISCAL ANALYSIS**

**ASSUMPTION**

Officials from the **Office of Administration - Division of Accounting, Office of the State Treasurer** and the **Department of Economic Development** each assume the proposal would not fiscally impact their respective agencies.

Officials from the **Office of Administration - Budget and Planning (BAP)** state this proposal ends the timely filing discount for sales and income tax withholding and places the increased revenues in the Utilicare Stabilization Fund. The proposal states that the commissioner of administration is to calculate each month the increased funding as a result of the repeal of the discount, and provide that estimate to the state treasurer for transfer to the Utilicare Fund.

This proposal will increase total state revenue by \$54.7M, according to information supplied by the Department of Revenue, as follows:

The repeal of the withholding tax discount will increase general revenue by \$20.9M, although the net impact on general revenue will be \$0 after the transfer.

The repeal of the sales tax withholding discount will, according to DOR, increase general

ASSUMPTION (continued)

revenue by an estimated \$15.6M, and other state funds by an estimated \$6.4M. The net impact on general revenue and these other state funds will be \$0 after the transfer is made to the Utilicare fund. Additionally, an estimated \$11.8M of local funds (for a total of \$33.8 million) will be transferred to the Utilicare fund.

There should be no added cost to the BAP as a result of this bill, as BAP should be able to absorb the extra duty of calculating the estimated transfer each month.

Officials from the **Department of Revenue (DOR)** state the legislation repeals Sections 143.261 and 144.140 RSMo, which provided compensation or discounts to taxpayers for filing their sales or withholding taxes timely. This amount will be included in General Revenue until the State Treasurer's Office transfers these amounts (as estimated by OA) to the Utilicare Stabilization Fund.

DOR's Taxation states the legislation needs to contain an effective date "to become effective January 1, 2007" or at the beginning of a calendar year, as to cut down on costs of implementation. If the change became effective at the beginning of a calendar year, DOR would be able to advertise and include notification with the mailings already being submitted to the taxpayers. Otherwise, DOR will have to reprint withholding tax vouchers, one and two-location sales tax vouchers, sales/use tax long forms (53-1 & 53U-1), as well as, sending a notification letter or some sort of supplement to notify the taxpayers, all to accommodate the changes. The costs indicated depict the costs as the language is currently worded (without a calendar-year effective date), the breakdown for these costs are provided below.

**Sales Tax:** There are approximately 150,000 sales tax filers registered with DOR. A supplement or notification letter would cost \$62,250 ( $150,000 \times \$0.025 = \$3,750$  for letters +  $150,000 \times \$0.39 = \$58,500$  for postage).

**Withholding Tax:** Initial confusion on the taxpayer's part, may cause a higher than normal volume of correspondence and questions. This will be handled with existing staff, as DOR realizes this increase would diminish over time. However, notification would still need to be sent to the taxpayer. There are approximately 160,000 withholding tax accounts currently registered with DOR. A supplement or notification letter would cost \$66,400 ( $160,000 \times \$0.025 = \$4,000$  for the letters +  $160,000 \times \$0.39 = \$62,400$  for postage).

**Forms:** As worded, the change will become effective August 2006, if signed by the governor. Therefore, sales and withholding tax forms would have to be reprinted/mailed to the taxpayers containing the new format before the end of the year (normal print/ mailing time). DOR would

ASSUMPTION (continued)

have to re-bid the printing contract. The voucher books would contain fewer forms, causing the postage to be less. (The following figures are assuming the cost for voucher reprints plus postage would be ½ the cost of a full-year voucher book. Long-form/paper returns will be at full cost.)

Withholding Tax voucher books - 141,818 cost \$42,893 for full-year/1/2 of this is \$21,447.

Withholding Tax MO-941 - 12,000 cost \$142

Sales Tax voucher books - 100,626 cost \$28,190 for full-year/1/2 of this is \$14,095.

Sales Tax long-form 53-1/53U-1 - 2,200 cost \$227

In summary, DOR assumes the cost for letters, postage and forms would be \$164,561 in FY 2007.

DOR assumes the increase in revenues from the removal of the withholding discount would be \$20.9 million annually, while increase in revenue to various state and local funds from the sales tax discount removal would be \$33.8 million per year.

Officials from the **Department of Social Services** did not respond to our request for impact.

Utilizing the breakout provided by BAP, **Oversight** will assume the following annual impact from the sales tax timely file discount removal part of the proposal (Section 144.140);

Fund	Sales Tax Rate	Est Annual Savings
General Revenue	3.000%	\$15,600,000
School District Trust Fund	1.000%	\$5,200,000
Conservation Fund	0.125%	\$650,000
Parks and Soils	0.100%	\$520,000
Cities and Counties (estimate)	2.250%	\$11,800,000
<b>Total Sales Tax</b>	<b>6.475%</b>	<b>\$33,770,000</b>

**Oversight** will also assume the effective date of the changes of the sales and withholding tax remittance would be January 1, 2007. Therefore, Oversight will assume 6 months of revenue impact in FY 2007. Oversight will also assume that since the effective date of the changes would be January 1, 2007, the Department of Revenue would incur expenses less than the amount estimated; therefore, Oversight will range the anticipated costs to the DOR of 'up to' their estimate.

ASSUMPTION (continued)

**Oversight** assumes the annual transfer to the Utilicare Stabilization Fund from the General Revenue Fund would be \$42.9 million (\$20.9 million from the withholding discount plus \$33.8 million from the sales tax discount less \$11.8 million of local sales taxes increased by the proposal). This, however, would result in an annual loss to the General Revenue fund since;

1. the removal of the sales tax discount increases several state funds besides the General Revenue Fund;
2. the calculation of the 'net increase in the amount of state tax revenues collected and any adjustments to previous estimates resulting from the repeal of the timely filing discounts' would include the increase to the General Revenue Fund as well as all other state funds comprising the Missouri state sales tax; and
3. the State Treasurer shall transfer such estimated amount from only the General Revenue Fund (according to 660.136.4) to the Utilicare Stabilization Fund.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (6 Mo.)	FY 2008	FY 2009
<b>GENERAL REVENUE</b>			
<u>Income</u> - repeal of 2% timely filed discount for sales taxes	\$7,800,000	\$15,600,000	\$15,600,000
Income - repeal of timely filed discount for withholding taxes	\$10,450,000	\$20,900,000	\$20,900,000
<u>Costs</u> - Department of Revenue			
Notification mailing	Up to (\$164,561)	<u>\$0</u>	<u>\$0</u>
<u>Transfer Out</u> - to the Utilicare Stabilization Fund	<u>(\$21,435,000)</u>	<u>(\$42,870,000)</u>	<u>(\$42,870,000)</u>
<b>ESTIMATED NET EFFECT TO GENERAL REVENUE</b>	<b><u>(\$3,185,000 to \$3,349,561)</u></b>	<b><u>(\$6,370,000)</u></b>	<b><u>(\$6,370,000)</u></b>

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2007 (6 Mo.)	FY 2008	FY 2009
<b>OTHER STATE FUNDS</b>			
<u>Income</u> - to School District Trust Fund repeal of 2% timely filed discount for sales taxes	\$2,600,000	\$5,200,000	\$5,200,000
<u>Income</u> - to Conservation Fund repeal of 2% timely filed discount for sales taxes	\$325,000	\$650,000	\$650,000
<u>Income</u> to Parks and Soil Funds repeal of 2% timely filed discount for sales taxes	\$260,000	\$520,000	\$520,000
<u>Transfer In</u> - to Utilicare Stabilization Fund - from the General Revenue Fund for net increase in state revenues from removal of timely filed discounts for sales and withholding taxes	<u>\$21,435,000</u>	<u>\$42,870,000</u>	<u>\$42,870,000</u>
<b>ESTIMATED NET EFFECT TO ALL OTHER STATE FUNDS</b>	<b><u>\$24,620,000</u></b>	<b><u>\$49,240,000</u></b>	<b><u>\$49,240,000</u></b>
<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
<b>CITIES AND COUNTIES</b>			
<u>Income</u> to Cities and Counties repeal of 2% timely filed discount for sales taxes	<u>\$5,900,000</u>	<u>\$11,800,000</u>	<u>\$11,800,000</u>
<b>ESTIMATED NET EFFECT TO CITIES AND COUNTIES</b>	<b><u>\$5,900,000</u></b>	<b><u>\$11,800,000</u></b>	<b><u>\$11,800,000</u></b>

FISCAL IMPACT - Small Business

Small businesses that remit sales and/or withholding taxes to the state would be negatively impacted as a result of this proposal.

DESCRIPTION

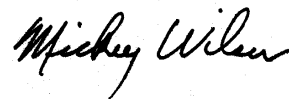
This proposal repeals the timely filed discounts for sales tax remittance and income tax withholdings. The increase in state revenue realized by the repeal of the timely filed discounts shall be estimated and transferred to the Utilicare Stabilization Fund.

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  
Department of Economic Development  
Office of the State Treasurer

**NOT RESPONDING: Department of Social Services**



Mickey Wilson, CPA  
Director  
March 29, 2006