COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4309-02
Bill No.: SB 860
Subject: Taxation and Revenue - Income
Type: Original
Date: February 14, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	($282,967,000 to $565,934,000)	($282,967,000 to $565,934,000)	($282,967,000 to $565,934,000)
Total Estimated Net Effect on General Revenue Fund	**($282,967,000 to $565,934,000)**	**($282,967,000 to $565,934,000)**	**($282,967,000 to $565,934,000)**

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 4 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 **Department of Revenue (DOR)** state this legislation modifies income taxation of married couples with taxable income less than $100,000.

DOR assumes this proposal will require modifications to individual income tax systems. Taxation estimates these modifications will require a MINITS programming costs of $46,170 (1,384 hours). DOR proposes to cover these costs with current IT staff. Effective July 1, 2006, our IT staff will be moved to OA pursuant to consolidation, but we have no reason to believe this transfer will limit our ability to absorb these costs. In the event multiple new credits/deductions are passed, this cost could exceed current appropriation levels and result in additional funds being requested.

DOR assumes with this proposal, a resident taxpayer with combined income of less than $100,000, the first $315 of tax (potentially $630 per couple) would be lost.

Officials from the **Office of Administration - Budget and Planning (BAP)** state that under current law, Missouri personal income tax is $315 plus 6% of the excess over $9,000 of Missouri taxable income. This proposal eliminates the $315 per taxpayer liability for resident taxpayers filing a combined return with combined income less than $100,000. According to IRS statistics

ASSUMPTION (continued)

from tax year 2003, there were 919,556 joint returns from Missouri with federal adjusted gross income under $100,000. BAP estimates a similar number of filers would qualify under this legislation. Therefore, BAP estimates this proposal would reduce general and total state revenues by ($315) x 2 x 919,556 = ($579.3 million).

Officials from the **University of Missouri - Economic and Policy Analysis Research Center (EPARC)** state there were 898,308 combined resident returns filed in Missouri in 2004 that meet the income test (their combined taxable income is between $9,000 and $100,000). There is a $315 deduction of their tax bill as a result of this bill. The aggregate impact is to reduce net general revenue by $282.97 million ($315 x 898,308).

Oversight assumes the proposal would allow a $315 tax deduction on each individual that has income who files a combined return of less than $100,000. In calculating tax liability in Missouri, the income tax is calculated separately for each individual that makes up the combined income. Therefore, a couple with combined income of less than $100,000, where each person has income over $9,000, would receive two separate $315 tax deductions from the proposal. Therefore, Oversight will utilize EPARC's estimate for the number of combined returns this could impact, but Oversight will range the impact from EPARC's estimate of $282.97 million to $565.93 million if each wage earner on the combined return is allowed to use a $315 deduction in calculating their individual tax liability.

This proposal will reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
Loss - Department of Revenue			
For married resident taxpayers with combined incomes under $100,000, the first $9,000 of income is tax free for each taxpayer.	($282,967,000 to $565,934,000)	($282,967,000 to $565,934,000)	($282,967,000 to $565,934,000)
ESTIMATED NET EFFECT TO GENERAL REVENUE	**($282,967,000 to $565,934,000)**	**($282,967,000 to $565,934,000)**	**($282,967,000 to $565,934,000)**

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

This proposal provides for the Missouri taxable income, of resident taxpayers filing combined returns with less than $100,000 in combined taxable income to be taxed at six percent of the amount over $9,000.

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
University of Missouri
Economic and Policy Analysis Research Center

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Director
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