

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0432-01
Bill No.: SB 34
Subject: Taxation and Revenue-Income; Taxation and Revenue-Property
Type: Original
Date: February 16, 2007

Bill Summary: Would require nonresident taxpayers to add property taxes paid to another state and deducted on their federal tax return to the tax payers federal adjusted gross income in determining Missouri adjusted gross income.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue *	(\$184,861) to Unknown	(\$196,754) to Unknown	(\$199,485) to Unknown
Total Estimated Net Effect on General Revenue Fund *	(\$184,861) to Unknown	(\$196,754) to Unknown	(\$199,485) to Unknown

* Expected to exceed \$100,000.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>Other</u> 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 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	5.5	5.5	5.5
Total Estimated Net Effect on FTE	5.5	5.5	5.5

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration, Administrative Hearing Commission** assumed the proposal would have no fiscal impact on their organization.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assumed the proposal have no added cost to their organization. BAP deferred to the Department of Revenue for an estimate of possible increased revenues to the state as a result of the proposal.

Officials from the **Department of Revenue (DOR)** assumed the proposal would require non-residents to add back the property taxes paid to other states if they took the amount of the property taxes paid as an itemized deduction on their federal return. As a result, the proposal would increase the non-residents Missouri Adjusted Gross Income, which would increase the Missouri tax, therefore, increasing the total state revenues. DOR estimated the fiscal impact to their organization as follows.

Personal Tax anticipates that the proposal would require an additional line and edit on form MO-A part 2 to subtract the property tax from the non-resident's itemized deductions. The additional line would require 2 Temporary Tax Employees for keying purposes. To maintain the current processing time, Personal Tax would need 1 Tax Processing Tech I for every 19,000 errors created and 1 Tax Processing Tech for every 2,400 additional pieces of correspondence created by this legislation.

DOR stated that their reports show 116,000 non-residents itemize their deductions, resulting in 104,000 additional errors, and estimate that Personal Tax would ultimately need an additional 5.5 FTE.

Customer Services would require 1 Tax Collection Technician I for every 15,000 calls a year on the income tax hot line due to lack of documentation, and 1 Tax Collection Technician I for every 24,000 calls a year to the delinquency/collections lined on billings and denied deductions due to lack of documentation. They would also need 1 Tax Processing Technician I for every additional 4,800 contacts in the field offices. DOR anticipates most customers will contact the department via phone, therefore, will only request 1 FTE for each of the larger field offices including Kansas City, St. Louis, and Springfield.

DOR Information Technology ITSD/DOR estimates that this legislation could be implemented with 5 CIT III for ten weeks at a rate of \$52,325. DOR assumes that existing resources would be used to implement this legislation.

ASSUMPTION (continued)

In summary, DOR submitted a cost estimate including 10.5 additional FTE and related equipment and expense totaling \$407,780 for FY 2008, \$434,469 for FY 2009, and \$445,485 for FY 2010. However, in response to a similar proposal in the previous session (SB 595 LR 3667-01 2006) the DOR estimated cost included only 5.5 additional FTE.

Oversight will use the previous DOR estimate. **Oversight** has, for fiscal note purposes only, changed the starting salary for the new positions to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate for equipment and expenditures in accordance with OA budget guidelines. Finally, Oversight assumes the additional employees could be accommodated in existing office space. If unanticipated costs are incurred or if multiple proposals are enacted which increase the DOR workload, resources could be requested through the budget process.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center (EPARC)** stated that they could not provide an estimate of the fiscal impact of this proposal.

Oversight assumes the proposal would have an unknown positive impact on Missouri personal income tax revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE FUND			
<u>Revenue</u> - Department of Revenue			
Increase in Missouri income tax	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>Cost</u> - Department of Revenue			
Personal Service	(\$98,010)	(\$121,140)	(\$124,775)
Fringe Benefits	(\$43,183)	(\$53,374)	(\$54,976)
	(\$13,325)	(\$16,390)	(\$16,799)
Expense and Equipment	<u>(\$30,343)</u>	<u>(\$2,850)</u>	<u>(\$2,935)</u>
Total	<u>(\$184,861)</u>	<u>(\$193,754)</u>	<u>(\$199,485)</u>
ESTIMATED NET EFFECT TO GENERAL REVENUE FUND	<u>(\$184,861) to Unknown</u>	<u>(\$193,754) to Unknown</u>	<u>(\$199,485) to Unknown</u>
Estimated Net FTE Change for General Revenue Fund	5.5 FTE	5.5 FTE	5.5 FTE
<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

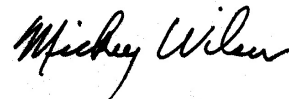
FISCAL DESCRIPTION

The proposal would require nonresident taxpayers to add property taxes paid to another state and deducted on their federal tax return to the tax payers federal adjusted gross income in determining Missouri adjusted gross income.

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

Office of Administration
 Administrative Hearing Commission
 Division of budget and Planning
Department of Revenue
University of Missouri
 Economic and Policy Analysis Research Center



Mickey Wilson, CPA
Director
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