

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3108-01
Bill No.: SB 852
Subject: Taxation and Revenue - Income
Type: Original
Date: February 29, 2008

Bill Summary: Would create a Missouri earned income tax credit.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	\$0	(\$49,812,700)	(\$52,130,333)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$49,812,700)	(\$52,130,333)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	0	7	7
Total Estimated Net Effect on FTE	0	7	7

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 2009	FY 2010	FY 2011
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) prepared an analysis based on tax year 2006 data which indicated the proposal would reduce individual income tax and net general revenue by \$4 million in 2009 and 2010 (FY 2010 and FY 2011). The EPARC estimate indicated revenue reductions of \$5 million for 2011 and 2012 (FY 2012 and FY 2013) and revenue reduction of \$7 million per year after that.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this proposal would create a refundable earned income tax credit (EIC) equivalent to 5% of the federal earned income tax credit for 2009 and 2010. For 2011 and 2012, the proposal would create an earned income tax credit of 10% of the federal credit. For 2013 and after, the proposal would create an earned income tax credit equal to 20% of the federal credit. BAP does not anticipate any added cost to their organization as a result of this proposal. BAP calculated a fiscal impact to the state as follows:

IRS Statistics of Income for tax year 2005 indicate that \$827.0 million in federal EIC were claimed by Missouri taxpayers. The EIC has grown an average of 4.6% annually since 2002. Therefore, general and total state revenues would be reduced, beginning in FY09, as in the table below.

Tax Year	Federal EIC (Millions)	Missouri EIC (Millions)
2009	\$991.0	\$49.55
2010	\$1,037.0	\$51.85
2011	\$1,085.0	\$108.50
2011	\$1,135.0	\$113.50
2012	\$1,187.0	\$237.40
2013	\$1,242.0	\$248.40

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would establish a new tax credit. Tax credits reduce the amount of tax due; therefore, the new tax credit would reduce state revenues.

This proposal would create a Missouri Earned Income Tax Credit, equal to 5% of the federal credit for 2009 and 2010, equal to 10% of the federal credit for 2011 and 2012, and equal to 20% of the federal credit for years after 2012. The credit could be applied against the taxes imposed by Chapter 143, except withholding taxes. The credit is refundable. DOR would be required to notify taxpayers who may be eligible for the credit. The credit would automatically sunset after 6 years.

DOR assumes that income tax forms and instructions would need to be changed, and that MINITS would require programming changes.

The DOR administrative cost estimate was as follows:

- * Personal Tax would require four FTE Temporary Tax Employees for key-entry of the additional line on the return and to verify supporting federal documents, one FTE Tax Processing Technician I for every additional 19,000 returns to be verified, one FTE Tax Processing Technician I for every additional 2,400 pieces of correspondence received, and two FTE Tax Processing Technicians for compliance assurance.
- * Customer Assistance would require 1.0 FTE Tax Collections Technician I for every additional 15,000 contacts annually on the delinquency phone line, 1.0 FTE Tax Collections Technician I for every additional 24,000 contact annually on the income tax phone line, and 3.0 FTE Tax Processing Technician I for every additional 4,800 contacts in the field offices. Customer Assistance anticipates the increase in contacts to be significant enough to request 1 Tax Processing Technician I for each of the larger field offices, Kansas City, St. Louis, and Springfield.

DOR submitted a cost estimate including two Tax collections Technician I, seven Tax Processing Technician I, and four Temporary Tax Employees, with related equipment and expenses, totaling \$369,555 for FY 2009, \$396,750 for FY 2010, and \$408,654 for FY 2011.

ASSUMPTION (continued)

DOR stated that two of the Tax Processing Technicians would be required to verify that the filer's Missouri earned income tax credit was based on the federal credit actually received rather than the amount claimed on the filer's federal return.

In response to a similar proposal (SB 777 LR 3241-01), DOR submitted a cost estimate including two FTE Tax collections Technician I, five FTE Tax Processing Technician I, and four FTE Temporary Tax Employees, with related equipment and expenses, totaling \$296,103 for FY 2009, \$319,302 for FY 2010, and \$328,882 for FY 2011.

DOR officials also provided this estimate of the IT cost to implement this proposal:

The Office of Administration, Information Technology Services Division (ITSD/DOR) estimates that this legislation could be implemented utilizing one existing CIT III for two months for modifications to MINITS at an estimated cost of \$8,372. ITSD/DOR assumes the IT portion of this request could be accomplished with existing resources; however, if priorities shift, additional FTE/overtime would be needed.

Oversight assumes that the verification of actual federal tax credit amounts would be performed in the same manner as the current process used to verify amounts from the federal form returns, and will use the earlier estimate of DOR cost for this fiscal note.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional 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 adjusted equipment and expense amounts in accordance with Office of Administration budget guidelines, and Oversight assumes a limited number of additional employees could be accommodated in existing space.

Oversight will use the BAP estimate of fiscal impact for purposes of this fiscal note, and Oversight assumes this proposal would be effective for 2009 tax returns filed in FY 2010. Accordingly, Oversight has included a full year's estimated revenue loss and DOR costs for FY 2010.

This proposal could reduce total state revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
<u>Revenue reduction</u> - Department of Revenue			
Earned income tax credits	\$0	(\$49,550,000)	(\$51,850,000)
<u>Cost</u> - Department of Revenue			
Personal Service (7 FTE)	\$0	(\$128,450)	(\$158,764)
Temporary Employees	\$0	(\$26,780)	(\$33,100)
Fringe Benefits	\$0	(\$68,643)	(\$84,842)
Expense and Equipment	<u>\$0</u>	<u>(\$38,837)</u>	<u>(\$3,627)</u>
Total	<u>\$0</u>	<u>(\$262,710)</u>	<u>(\$280,333)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$49,812,710)</u>	<u>(\$52,130,333)</u>
Estimated Net FTE Effect on General Revenue Fund	0	7	7
<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
	<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.

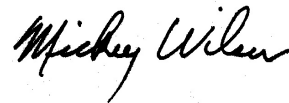
FISCAL DESCRIPTION

This proposal would create a Missouri Earned Income Tax Credit equal to 5% of the federal credit for 2009 and 2010, equal to 10% of the federal credit for 2011 and 2012, and equal to 20% of the federal credit for years after 2012.

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
Division of Budget and Planning
University of Missouri
Economic and Policy Analysis Research Center
Department of Revenue



Mickey Wilson, CPA
Director
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