

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3241-01
Bill No.: SB 777
Subject: Taxation and Revenue - Income
Type: Original
Date: January 16, 2008

Bill Summary: Would create the Missouri Earned Income Tax Credit.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	(\$189,662,710)	(\$198,480,333)	(\$207,688,743)
Total Estimated Net Effect on General Revenue Fund	(\$189,662,710)	(\$198,480,333)	(\$207,688,743)

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 6 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	7	7	7
Total Estimated Net Effect on FTE	7	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) of \$7 million.

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 20% of the federal earned income tax 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)
2008	\$947.0	\$189.4
2009	\$991.0	\$198.2
2010	\$1,037.0	\$207.4
2011	\$1,085.0	\$217.0
2012	\$1,135.0	\$227.0

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 20% of the Federal Earned Income Tax Credit. The credit could be applied against the taxes imposed by Chapter 143, except withholding taxes. The credit is refundable. In the case of a married couple filing separate tax returns, the credit could be divided between the couple or either spouse could claim the full amount. DOR would be required to notify taxpayers who may be eligible for the credit. The credit would automatically sunset after 6 years.

ASSUMPTION (continued)

DOR assumes that income tax forms and instructions would need to be changed, and that MINITS would require extensive programming changes to allow the department to move the overpayment from one return to the other, if the taxpayer who receives the refund and files married filing separate, elects to apply the overpayment to the other spouse's return.

The DOR administrative cost estimate was as follows:

- * Personal Tax would require 4.0 FTE Temporary Tax Employees for key-entry of the additional line on the return and to verify supporting federal documents, 1.0 FTE Tax Processing Technician I for every additional 19,000 returns to be verified, and 1.0 FTE Tax Processing Technician I for every additional 2,400 pieces of correspondence received.
- * 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 for 2.0 FTE Tax collections Technician I, 5.0 FTE Tax Processing Technician I, and 4.0 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 2 existing CIT III for 2 months for modifications to MINITS at an estimated cost of \$16,744. 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.

ASSUMPTION (continued)

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 2008 tax returns filed in FY 2009. Accordingly, Oversight has included a full year's estimated revenue loss for FY 2009.

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 - Department of Revenue</u>			
Earned income tax credits	(\$189,400,000)	(\$198,200,000)	(\$207,400,000)
<u>Cost - Department of Revenue</u>			
Personal Service (7.0 FTE)	(\$128,450)	(\$158,764)	(\$163,527)
Temporary Employees	(\$26,780)	(\$33,100)	(\$34,093)
Fringe Benefits	(\$68,643)	(\$84,842)	(\$87,388)
Expense and Equipment	<u>(\$38,837)</u>	<u>(\$3,627)</u>	<u>(\$3,735)</u>
Total	<u>(\$262,710)</u>	<u>(\$280,333)</u>	<u>(\$288,743)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$189,662,710)</u>	<u>(\$198,480,333)</u>	<u>(\$207,688,743)</u>
Estimated Net FTE Effect on General Revenue Fund	7	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.

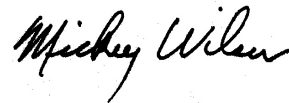
FISCAL DESCRIPTION

This proposal would create a Missouri Earned Income Tax Credit equal to 20% of the taxpayer's federal earned income tax credit.

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
January 16, 2008