COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3243-03
Bill No.: Perfected HCS for HB 1321 & 1695
Subject: Elderly; Revenue Dept.; Taxation and Revenue - General; Taxation and Revenue - Income; Taxation and Revenue - Property
Type: Corrected
Date: April 9, 2008

Bill Summary: Would make changes to the senior citizen property tax relief program and nonresident income tax calculations, and to local property taxation procedures.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	($17,765,819 to $19,265,819)	($17,777,759 to $19,277,759)	($17,786,091 to $19,286,091)
Total Estimated Net Effect on General Revenue Fund	**($17,765,819 to $19,265,819)**	**($17,777,759 to $19,277,759)**	**($17,786,091 to $19,286,091)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	8	8	8
Total Estimated Net Effect on FTE	**8**	**8**	**8**

☐ 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 *	**(Unknown)**	**(Unknown)**	**(Unknown)**

* Net of offsetting revenue increase and reduction.

FISCAL ANALYSIS

ASSUMPTION

Senior Citizens Property Tax Relief

Officials from the **Department of Revenue** (DOR) noted that this proposal would change the Senior Citizens Property Tax Credit program. DOR officials assume that this proposal would require refunds issued by the state to increase and in essence, decrease General Revenue. DOR officials also stated that this proposal would extend the sunset date for assessment fund withholding from local property tax collections.

DOR submitted a cost estimate to implement this proposal including eight additional FTE and related equipment and expense, totaling $319,063 for FY 2009, $340,296 for FY 2010, and $350,505 for FY 2011.

DOR officials also provided an estimate of the IT cost to implement the proposal from the **Office of Administration, Information Technology Services Division** (ITSD/DOR). ITSD/DOR assumes the IT portion of this request could be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed. ITSD/DOR) estimates that this legislation could be implemented utilizing 2 existing CIT III for 3 months for modifications to MINITS at a total cost of $25,116.

Oversight has, for fiscal note purposes only, changed the starting salary 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 also adjusted equipment and expense amounts in accordance with OA Budget Guidelines, and Oversight assumes the limited number of additional FTE could be accommodated in existing office space.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume there would be no added cost to the Office of Administration/Budget and Planning as a result of this proposal.

BAP officials stated that the proposal would make numerous changes to the Senior Property Tax Credit Program. BAP defers to DOR for an estimate of the fiscal impact to the state General Revenue Fund.

ASSUMPTION (continued)

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume this proposal would change the senior citizen property tax credit program. The proposal would increase the upper limit to $43,500, increase the minimum base to $17,000, increase the spouse exemption to $10,500, and increase the maximum credit to $1,100. EPARC estimated that the proposal would the result in an increase in credits of $11.7 million per year.

Oversight will use the EPARC estimate of additional tax credits for this fiscal note.

Officials from the **Office of the St. Louis County Collector** assumed a previous version of this proposal would have no fiscal impact on their organization.

Officials from **Clinton County** assumed a previous version of this proposal this proposal could result in a loss of revenue to their organization and a gain to their citizens. Clinton County officials stated that there could be minor costs to educate the taxpayers, and noted that there could be revenue reductions for the taxing authorities.

Assessment Fund Withholding

Officials from the **State Tax Commission** (TAX) assume this proposal would have no fiscal impact on their organization. TAX officials also provided statewide annual assessment fund totals of $3.71 million for 2005 (FY 2006) and $3.83 million for 2006 (FY 2007).

Oversight notes that this proposal would extend the sunset for assessment fund withholding from December 31, 2009 (FY 2010) to December 31, 2012 (FY 2013). Oversight assumes that assessment fund withholding for FY 2010 would have been collected on or before December 31, 2009 and there would be no significant fiscal impact on FY 2010. Oversight will include an estimate of the assessment fund withholding for FY 2011 in this fiscal note.

Business Personal Property Assessment

This proposal would specify that the valuation process defined in Section 137.122 RSMo would not apply to property placed in service before January 2, 2006.

Oversight did not receive any responses related to this provision; Oversight assumes this proposal would not have a significant impact on state or local governments.

ASSUMPTION (continued)

Nonresident Income Tax Deduction for Property Taxes

This proposal would require taxes property taxes paid by certain nonresident taxpayers to be added-back to adjusted gross income.

Officials from the **University of Missouri, Economic Policy Analysis and Research Center** (EPARC) assumed that a similar proposal (SB 748 LR 3499-01) would allow nonresident Missouri income tax filers to deduct property taxes paid in another state, provided that the filer's home state allows Missouri resident taxpayers to deduct property taxes paid in Missouri on that state's nonresident income tax returns.

EPARC officials stated they did not have information regarding which states allowed such reciprocal property tax deductions and were not able to provide an estimate of the income tax impact of this proposal.

Officials from the **Department of Revenue** (DOR) assumed that a similar proposal (SB 748 LR 3499-01) would have no fiscal impact on their organization.

DOR officials provided an estimate of the IT cost to implement the proposal.

The Office of Administration, Information Technology Services Division (ITSD/DOR) assumes the IT portion of this proposal could be implemented with existing resources; however, if priorities shift, additional FTE/overtime would be needed. ITSD/DOR officials estimate that this proposal could be implemented utilizing two existing CIT III for two months for modifications to MINITS at a total cost of $16,744.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assumed that a similar proposal (SB 748 LR 3499-01) would not result in additional costs or savings to their organization. BAP officials stated that this proposal would eliminate the add-in to modified adjusted gross income for non-resident taxpayers of the property taxes paid to another state, if such state reciprocates this deduction. Numerous media reports have established that Kansas allows this deduction, while Illinois does not. BAP is unsure which other states also reciprocate.

In response to a proposal in the previous session, (Amendments to SS for SCS for HB 444, 217, 225, 239, 243, 297, 402 & 172, LR 0761-09A, 2007) BAP estimated the fiscal impact of eliminating the deduction for property taxes paid nonresidents on properties outside the state of Missouri as follows.

ASSUMPTION (continued)

In Missouri in 2004, those with itemized deductions who claim a real estate (property) tax deduction have an average deduction of $2,065. Of returns with itemized deductions, 91% claim a real estate tax deduction.

In 2003, there were 116,447 nonresident returns that claimed itemized deductions. If 91% of those returns claim a real estate tax deduction, there would be 105,967 nonresident returns claiming a $2,065 deduction for real estate tax paid to another state.

Based on these assumptions, $218.8 million in taxable income would be added to nonresidents' federal adjusted gross income by this proposal. Assuming that this full amount would be taxed at the 6% tax rate, the revenue gain would be about $13.1 million; however, it is unknown how much of this income might be allocated to Missouri and reported as Missouri taxable income. Therefore, the impact of this section is between $0 and $13.1 million. This proposal would increase General and Total State Revenues.

According to the US Census Bureau, 195,531 workers commute to Missouri from other states. Among these, 44% are from Kansas, 44% are from Illinois, and 12% from other states. Should this proposal apply only to Kansas, implementation could reduce general and total state revenues by ($13.1 million x 44%) = $5.8 million. Should this proposal apply to all states except Illinois, implementation could reduce general and total state revenues by ($13.1 million x 56%) = $7.3 million.

Oversight assumes this proposal would cause a reduction in personal income tax collections due to the restoration of property tax deductions for Missouri nonresident filers who reside in a state which allows a reciprocal deduction for Missouri residents. The actual amount of revenue reduction could vary as other states adopt legislation regarding nonresident income tax deductions. For the purposes of preparing this fiscal note, Oversight will assume the impact of this proposal would be from $5.8 million to $7.3 million per year. Since the proposal would become effective upon passage and approval, Oversight assumes that the proposal would have a full year's impact for 2008 tax returns (FY 2009).

Property Tax Rollback Provisions

This proposal would specify that tax rate ceiling computations are to based on the previous year's tax rate. Further, the amount of additional revenue received from a voter-approved levy increase could not be greater than the amount calculated by applying the levy increase to the previous year's assessed valuation.

ASSUMPTION (continued)

In response to a similar proposal (HB 1349 LR 3697-01), officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this provision would not result in additional costs or savings to their organization.

BAP officials stated that this provision would revise the definition of "tax rate ceiling" to the tax rate used by the taxing authority in the preceding year and would limit the revenue received from a voter-approved tax rate increase to the amount determined by applying the levy increase to the prior year's assessed valuation. This proposal would not impact general and total state revenues, but could have implications on state spending, such as the schools' foundation formula.

In response to a similar proposal (HB 1349 LR 3697-01), officials from the **Department of Elementary and Secondary Education** (DESE) assume this provision would have no fiscal impact on their organization.

DESE officials stated that this provision would appear to revise the definition for the ceiling levy to be the levy the taxing authority levied the preceding year. Reassessment rollbacks would be applied to that preceding year actual levy. The impact on revenue would be at the local level and should not have a fiscal impact on the state. If the adjustment for the CPI is removed from the calculation, districts will have to eliminate some programs and staff. Districts may be faced with proposing a tax levy change to voters every year and that election process is costly.

This legislation appears to address concerns that taxing authorities pass levies that are more than they need and then voluntarily roll back for one or more years. Then when reassessment occurs, the actual tax levy of this authority is not rolled back because there is room between what they are levying and their ceiling levy. This difference is a voluntary rollback.

This proposal does not appear to increase the cost of the public school foundation funding formula as there is no provision to increase state money to offset a decrease in local revenue. The decrease of local revenue cannot be estimated.

Officials from **St. Louis County** stated that a similar proposal (HB 1349 LR 3697-01) would result in unknown local revenue losses.

Oversight assumes this provision would result in unknown reductions in local tax revenues and will indicate that impact in this fiscal note.

This proposal could reduce total state revenue.

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
Revenue reduction - additional tax credits	($11,700,000)	($11,700,000)	($11,700,000)
Revenue reduction - nonresident property tax deductions	($5,800,000 to $7,300,000)	($5,800,000 to $7,300,000)	($5,800,000 to $7,300,000)
Cost - Department of Revenue			
Personal Service - 8 FTE	($146,800)	($181,445)	($186,888)
Temporary employees	($6,695)	($8,275)	($8,523)
Fringe Benefits	($67,875)	($83,894)	($86,411)
Expense and Equipment	($44,449)	($4,145)	($4,269)
Total	($265,819)	($277,759)	($286,091)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($17,765,819 to $19,265,819)**	**($17,777,759 to $19,277,759)**	**($17,786,091 to $19,286,091)**
Estimated Net FTE Effect on General Revenue Fund	8	8	8

FISCAL IMPACT - Local Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
LOCAL GOVERNMENTS			
Revenue increase - County assessment funds	$0	$0	$4,280,000
Revenue reduction - County assessment fund withholding	$0	$0	($4,280,000)
Revenue reduction - local tax levy limit	(Unknown)	(Unknown	(Unknown)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

The proposed legislation would change senior citizens property tax relief provisions and extend the assessment fund withholding from local property tax collections. Additional provisions would limit the application of a specified business personal property assessment method, require certain nonresident taxpayers to add property taxes back to their Missouri taxable income, and would restrict the computation method for allowable local tax rates.

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
Department of Revenue
State Tax Commission
University of Missouri
    Economic and Policy Analysis Research Center
Clinton County
Office of the St. Louis County Collector

Mickey Wilson

Mickey Wilson, CPA
Director
April 9, 2008