COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0254-01
Bill No.: SB 105
Subject: Taxation and Revenue - Income
Type: Original
Date: February 25, 2009

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	($171,523,861)	($171,598,283)	($171,607,230)
Total Estimated Net Effect on General Revenue Fund	**($171,523,861)**	**($171,598,283)**	**($171,607,230)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on Other 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 2010	FY 2011	FY 2012
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
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 2010	FY 2011	FY 2012
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration**, **Division of Budget and Planning** (BAP) assume there would be no added cost to their organization as a result of this proposal. BAP officials assume the proposal would create a refundable earned income tax credit equivalent to 20% of the federal earned income tax credit. According to the IRS Statistics of Income reports, for tax year 2006, $871.8 million in federal Earned Income Credits were claimed by Missouri taxpayers. Historical data suggests growth of about 4.5% annually. BAP projects claims of $995 million in tax year 2009; 20% of that amount is $199 million. Therefore, BAP estimated general and total state revenues could be reduced by $199 million in FY10, $208 million in FY11, and $217 million in FY12.

Officials from the **Department of Revenue** (DOR) assume this proposal would create a Missouri Earned Income Tax Credit, equal to 20% of the Federal Earned Income Credit. The credit could be applied against the taxes imposed by Chapter 143, except withholding taxes; the credit would be refundable; in the case of a married couple filing separate tax returns, the credit allowed would be divided between the couple, or either spouse could claim the full amount. Every year, the Department of Revenue would be required to notify taxpayers who may be eligible for the credit.

* Modifications to tax forms and instructions would be required.

* Personal Tax would require four FTE Temporary Tax Employees for key-entry, one FTE Revenue Processing Technician I for every additional 19,000 returns to be verified, and one FTE Revenue Processing Technician I for every additional 2,400 pieces of correspondence received.

* DOR also assumes that two FTE Revenue Processing Technician I would be required for compliance assurance once the return has been processed.

ASSUMPTION (continued)

- * Collections and Tax Assistance would require one FTE Tax Collections Technician I for every additional 15,000 contact annually on the delinquency phone line, one FTE Tax Collections Technician I for every additional 24,000 contacts annually on the income tax phone line, and three FTE Revenue 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 one FTE 1 Tax Processing Technician I for each of the larger field offices; Kansas City, St. Louis, and Springfield.

DOR officials submitted an estimate of the cost to implement the proposal including nine additional FTE and the related equipment and expenditures amounting to $374,250 for FY 2010, $402,810 for FY 2011, and $414,894 for FY 2012.

Oversight notes that DOR provided an estimate of the cost to implement a similar proposal in the previous session which included seven additional FTE. Oversight assumes that the compliance assurance process would be performed after the end of the filing season when IRS data becomes available and that some of employees added for the program would be available for that process. Oversight will include seven additional employees for fiscal note purposes.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employees 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 the DOR estimate of cost for equipment and expenditures in accordance with OA budget guidelines. Finally, Oversight assumes that a limited number of additional employees could be accommodated in existing office space.

ASSUMPTION (continued)

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

Officials from the **Office of Administration**, **Information Technology Services Division** (ITSD/DOR) estimate the IT portion of this request could be implemented using two FTE existing CIT III for two months for system modifications to MINITS at a total cost of $17,764. IRSD/DOR officials assume the proposal can be implemented with existing resources; if priorities shift, additional FTE or overtime would be needed.

Oversight assumes the proposal could be implemented with existing IT resources.

Officials from the **University of Missouri**, **Economic and Policy Analysis Research Center** (EPARC) assume this proposal would create a tax credit. Specifically, if an individual income tax filer is permitted the federal earned income tax credit, this proposal would provide the Missouri taxpayer a credit equal to twenty percent of the federal earned income credit and apply this credit to their Missouri tax bill.

EPARC officials provided an estimate of the fiscal impact of a Missouri Earned Income Tax credit program which indicated that Missouri individual income tax revenues would be reduced $171.3 million.

Oversight will use the EPARC 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 for FY 2010. For fiscal note purposes, Oversight has indicated the same amount of earned income credits for FY 2010, FY 2011, and FY 2012.

This proposal could reduce total state revenue.

FISCAL IMPACT - State Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE FUND			
Revenue reduction - Earned income tax credits	($171,300,000)	($171,300,000)	($171,300,000)
Cost - Department of Revenue			
Personal Service (7.0 FTE)	($132,300)	($163,523)	($168,428)
Temporary Employees	$26,780	($33,100)	($34,093)
Fringe Benefits	($77,361)	($95,618)	($98,486)
Expense and Equipment	($40,980)	($6,042)	($6,223)
Total	($223,861)	($298,283)	($307,230)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($171,523,861)**	**($171,598,283)**	**($171,607,230)**
Estimated Net FTE Effect on General Revenue Fund	7	7	7

FISCAL IMPACT - Local Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
	$0	**$0**	**$0**

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 the Missouri 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
Department of Revenue
University of Missouri
Economic and Policy Analysis Research Center

Mickey Wilson, CPA
Director
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