

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1444-01
Bill No.: SB 238
Subject: Business and Commerce; Taxation and Revenue - Income
Type: Original
Date: February 10, 2009

Bill Summary: Would disallow the domestic production deduction for Missouri Income tax purposes.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|-----------------------------------------------------------|---------------------|---------------------|---------------------|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| General Revenue | \$10,934,680 | \$13,904,234 | \$14,091,361 |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | \$10,934,680 | \$13,904,234 | \$14,091,361 |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---------------------------------------------------------------|------------|------------|------------|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 | \$0 | \$0 |

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---------------------------------------------------------------|----------------|----------------|----------------|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|-----------------------------------------------------------|----------------|----------------|----------------|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| General Revenue | 1 | 1 | 1 |
| | | | |
| Total Estimated Net Effect on FTE | 1 | 1 | 1 |

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 the Secretary of State** and the **Department of Economic Development** assume this proposal would have no fiscal impact for their organizations.

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 also provided this estimate of the state fiscal impact of this proposal.

The proposal would disallow the federal domestic production deduction for Missouri individual income taxpayers. According to a report by the US Joint Committee on Taxation, this deduction is projected to reduce federal revenues by \$2.7B in FY2010. Based on this estimate, BAP estimates the impact to general and total state revenues as in the table below. (Amounts shown in \$ Millions)

| State Fiscal Year | <u>FY 2010</u> | <u>FY 2011</u> | <u>FY 2012</u> |
|-------------------------------------------|----------------|----------------|----------------|
| Total Federal Cost | \$2,700 | \$3,500 | \$3,900 |
| Estimated Effective Federal Tax Rate | 20.1% | 20.1% | 20.1% |
| Estimated Federal Deductions Taken | \$13,433 | \$17,413 | \$19,403 |
| Missouri Estimated Deductions at 1.75% | \$235 | \$305 | \$340 |
| Missouri Tax at 4.5% | <u>\$11</u> | <u>\$14</u> | <u>\$15</u> |

Officials from the **Department of Revenue (DOR)** assume this proposal would require Missouri taxpayers to add back to federal adjusted gross income the amount of any deduction under Section 199 of the Internal Revenue Code, as amended by the American Jobs Creation Act of 2004. Modifications to the MINITS system would be required, modifications to the MO-A form would be required, and modifications to the corporate income tax forms would be required.

ASSUMPTION (continued)

Personal Tax would require two Temporary Tax Employees for key entry, one FTE Revenue Processing Technician I (Range 10, Step L) per 19,000 returns verified, and one Revenue Processing Technician I (Range 10, Step L) per 2,400 pieces of correspondence.

DOR provided a cost estimate including two additional FTE with related equipment and expenses totaling \$\$90,618 for FY 2010, \$98,721 for FY 2011, and \$101,683 for FY 2012.

Oversight assumes the proposal would be effective for tax returns filed in January 2010.

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

| <u>FISCAL IMPACT - State Government</u> | FY 2010 | FY 2011 | FY 2012 |
|-------------------------------------------------------------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | (6 Mo.) | | |
| GENERAL REVENUE FUND | | | |
| <u>Cost - Department of Revenue</u> | | | |
| Personnel (2 FTE) | (\$22,680) | (\$46,721) | (\$48,122) |
| Temporary employees | (\$13,390) | (\$16,550) | (\$17,047) |
| Benefits | (\$17,541) | (\$30,769) | (\$31,692) |
| Expense and equipment | <u>(\$11,709)</u> | <u>(\$1,726)</u> | <u>(\$1,778)</u> |
| Total | <u>(\$65,320)</u> | <u>(\$95,766)</u> | <u>(\$98,639)</u> |
| <u>Revenue increase - disallowance of federal domestic production deduction</u> | <u>\$11,000,000</u> | <u>\$14,000,000</u> | <u>\$15,000,000</u> |
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | <u>\$10,934,680</u> | <u>\$13,904,234</u> | <u>\$14,091,361</u> |
| Estimated Net FTE Effect on General Revenue Fund | 1 | 1 | 1 |

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.

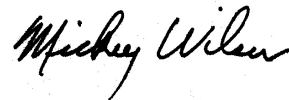
FISCAL DESCRIPTION

This proposal would disallow the domestic production deduction for Missouri Individual Income tax purposes.

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 the Secretary of State
Office of Administration
 Division of Budget and Planning
Department of Economic Development
Department of Revenue



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Director
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