

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0053-06
Bill No.: Perfected HCS for HB Nos. 116 and 316
Subject: Taxation and Revenue - General, Revenue Dept.
Type: Original
Date: March 2, 2011

Bill Summary: Would create a tax amnesty program for delinquent taxes and provide additional procedures for collecting state debts.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	More than \$100,000	More than \$100,000	More than \$100,000
Total Estimated Net Effect on General Revenue Fund	More than \$100,000	More than \$100,000	More than \$100,000

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 16 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Conservation Commission	Unknown	Unknown	Unknown
Parks, and Soil and Water	Unknown	Unknown	Unknown
School District Trust	Unknown	Unknown	Unknown
Various state funds	Unknown	Unknown	Unknown
Total Estimated Net Effect on <u>Other</u> State Funds	Unknown	Unknown	Unknown

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
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 2012	FY 2013	FY 2014
Local Government	Unknown	Unknown	Unknown

FISCAL ANALYSIS

ASSUMPTION

In response to a previous version of this proposal, Officials from the **Office of the Secretary of State** (SOS) assumed that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for the fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

SOS officials also assume this proposal would discourage in-state or out-of state broker-dealers and investment advisors from applying for a Missouri license, and would result in a loss of revenue from application fees.

In addition, SOS officials assume this proposal would require one additional FTE at approximately \$50,000 per year including benefits, an additional \$30,000 for temporary help to implement the registration process, and \$50,000 in technology updates.

ASSUMPTION (continued)

Oversight assumes that any reduction in license fees and related revenues would be minimal, and offset by increased revenues from taxes and fees collected.

Oversight will include an estimate of less than \$100,000 in FY 2012 for the SOS IT upgrades. Oversight assumes that the additional work could be accomplished with existing staff. If unanticipated additional costs are incurred or if multiple proposals are implemented which increase the SOS workload, resources could be requested through the budget process.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this proposal would not result in additional costs or savings to their organization.

The proposal would create an amnesty from all accrued penalties and interest on unpaid taxes, if taxes are appropriately filed during a period from August 1, 2011, to October 30, 2011. This proposal appears to be similar to the amnesty program in FY 2003. BAP estimates that \$75 million in revenues was received under that program, including \$50 million already identified from DOR investigations completed or in process. BAP estimates \$25 million of these revenues were "new" revenues from previously unidentified sources. Of those figures, approximately 70% would pertain to general revenue.

The proposal would increase general and total state revenue by improving tax collection procedures on delinquent taxes and/or debt owed to the state. It would also allow the Department of Revenue to retain 1% of the amount of any local sales or use tax collected to cover their costs. This proposal would also give the Department of Revenue authority to collect debt on behalf of other state agencies. All taxes in this proposal are existing, thus there would be no net impact.

BAP officials deferred to the Department of Revenue for estimates of the costs and increased revenue collections resulting from operational efficiencies.

ASSUMPTION (continued)

Officials from the **Department of Agriculture** (AGR) assume this proposal would result in a loss of revenue to their organization. AGR officials stated that in situations in which less than the total amount is collected back, the payment would be applied proportionally to collection costs and the underlying debt. In delinquent loan situations, this is typically the case, so based on the past three years average:

\$63,609 collections for which collection assistance would be requested.
 $(\$63,609 + ((10\% \times \$63,609) = \$6,361)) = \$69,970$ = amount requested plus 10% collection fee added according to this proposal.

\$13,858 collected
So, proportionally applying payment to the collection fee and MASBDA:
 $(\$69,970 / \$63,609) = 90.9\%$, and
 $(\$69,970 / \$6,361) = 9.1\%$; therefore
 $(\$6,361 \times 9.1\%) = \$1,261$ reduced revenue to MASBDA because of the collection fee.

Oversight assumes that delinquent accounts would be referred to the Department of Revenue after the Department of Agriculture had exhausted their internal collection process. Accordingly, any amounts collected by DOR on behalf of AGR would be greater than the collections on those accounts without DOR assistance. For fiscal note purposes, Oversight will not indicate a negative impact for AGR.

Officials from the **Department of Conservation** (MDC) assume this proposal would have a positive unknown fiscal impact on their organization due to the potential collection of delinquent sales taxes.

ASSUMPTION (continued)

Officials from the **Department of Elementary and Secondary Education** (DESE) assumed there would be a minimal administrative impact to their organization as a result of this proposal.

DESE officials stated that there would be no anticipated state cost to the foundation formula associated with this proposal. To the extent fine revenues exceed 2004-2005 collections, any increase in this money distributed to school districts increases the deduction in the foundation formula the following year. Therefore the affected districts would see an equal decrease in the amount of funding received through the formula the following year; unless the affected districts are hold-harmless, in which case the districts would not see a decrease in the amount of funding received through the formula (any increase in fine money distributed to the hold-harmless districts will simply be additional money). An increase in the deduction (all other factors remaining constant) reduces the cost to the state of funding the formula.

Officials from the **Department of Health and Senior Services** assume this proposal would have no fiscal impact on their organization.

Officials from the **Department of Natural Resources** (DNR) noted that this proposal would authorize the Department of Revenue to deposit all collections from the proposed amnesty program, other than revenues earmarked in the state constitution, into the state General Revenue Fund. The amount of fiscal impact is unknown.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal could have a positive impact on general and total state revenues.

The following is a breakdown of the estimated collections for the various sections of this legislation. Each figure reported represents the total in millions.

Sections	Subject	FY12 Net GR	FY12 Net Total	FY13 Net GR	FY13 Net Total	FY14 Net GR	FY14 Net Total
32.028, 32.400, 32.410, 32.420, 32.430, 32.440, 32.450, 32.460	Centralized State Debt Collections	\$0.75	\$1.00	\$4.00	\$6.00	\$5.00	\$7.50
32.087	1% collection fee	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35
32.088, 105.716, 144.083, 140.910 (admin garnishments), 168.071 (teacher certificates)	Enhanced No Tax Due and Garnishment	\$6.00	\$6.00	\$20.63	\$21.50	\$20.63	\$21.50

The department estimates FY 2012 increases to general revenue of approximately \$7 million for the collections provisions provided above, FY 2013 increases to general revenue of approximately \$25 million, FY 2014 increases to general revenue of approximately \$26 million and combined increases to total state revenue of approximately \$90 million through FY 2014.

DOR officials stated that collections under previous tax amnesty programs were approximately \$74 million in FY 2002 and \$42 million in FY 2003.

ASSUMPTION (continued)

For Section 32.383 DOR officials assume the proposal could have a positive impact on Total State Revenue in FY 2012 of up to \$74 million. However, DOR officials also estimated that up to \$50 million of the \$74 million which would be received through amnesty would already be identified as outstanding liabilities. DOR assumes that an overwhelming majority of the \$50 million, plus interest and penalties, could be collected without amnesty.

Oversight has analyzed the DOR estimates of additional tax collections, but we are not able to determine the reasonableness of those estimates since we do not have access to comparable information for similar programs, nor are we able to review any of the supporting documentation for those estimates since the information is confidential. Accordingly, Oversight will indicate unknown additional revenues for the state General Revenue Fund in excess of \$100,000, in addition to the recovery of program costs, for FY 2012, FY 2013, and FY 2014. Oversight will also indicate unknown additional revenues for the other state funds which receive sales tax collections, and for local governments. Finally, Oversight will indicate Unknown additional revenue for various state funds which would have increased revenues from improved DOR collections practices, and for agencies which would refer state debts to DOR for collection.

In addition to the new collections provided above, and in relation to Section 32.058, DOR estimates annual savings of \$1 million.

In Fiscal Year 2010, DOR mailed approximately 380,000 notices by certified mail at an approximate cost of \$1.25 million. These notices include, but are not limited to, the Individual Income Tax Notice of Deficiency, Individual Income Tax Final Decision, the Corporation Income Tax Notice of Deficiency, Corporation Income Tax Final Decision, the Withholding Tax Notice of Deficiency, Withholding Tax Final Decision, Sales and Use Tax Assessments, and the Assessment of Unpaid Sales Tax and Motor Vehicle Penalty Fee. If the certified mail requirement was removed for each of these notices, DOR would save approximately \$2.80 per mail piece, for a total postage savings of approximately \$1 million. In addition, DOR paid approximately \$.021 per certified mail envelopes and \$.017 per non certified mail envelopes. Therefore, DOR could save approximately \$1,500 dollars in envelope costs.

ASSUMPTION (continued)

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

Projected Amnesty Program Costs

Based on 2011 estimates, there are approximately 490,000 known taxpayers eligible for amnesty.

DOR estimates the programs costs would be as follows.

Postage, envelopes and printing - $490,000 \times \$0.505 = \$247,450$

The Taxation Division would incur costs for the following:

*	Overtime to review correspondence	\$100,000
*	Overtime to review errors on returns	\$73,000
*	Existing staff and temporary employees to key returns and process payments	\$145,000
*	Customer contacts	<u>\$30,000</u>
	Total	<u>\$348,000</u>

DOR also recommends an advertising budget of at least \$400,000. Advertising the amnesty should enhance participation in the program and help ensure that individuals and businesses not already in contact with the department participate in the program.

In the alternative, the state could contract with a private vendor to administer the amnesty, like several other states, that have achieved very good results. Contracting with a vendor would avoid the direct costs to the department, noted above. Vendor payment could be based on the percentage of debts collected.

ASSUMPTION (continued)

Administrative costs

DOR officials assume that Personal Tax would require one additional FTE Revenue Processing Technician I (Range 10, Step L) per 2,400 accounts to be reviewed, tracked, and monitored. DOR officials also assume that implementing the proposal would require a systems upgrade of \$1.5 million, professional services of \$561,000, and additional postage of \$86,250.

DOR officials submitted a cost estimate to implement the proposal including one additional employee with related fringe benefits, equipment, and expense, amnesty program costs of \$647,450, system upgrade of \$1,500,000, professional services of \$561,000, and additional postage of \$86,250 totaling \$3,363,747 for FY 2012, \$40,083 for FY 2013, and \$40,497 for FY 2014.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional position 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 expense cost in accordance with OA budget guidelines, and Oversight assumes that one additional employee could be accommodated in existing office space.

Oversight will indicate unknown costs in excess of \$100,000 in FY 2012 for the Department of Revenue to administer the amnesty program and for the consulting, system upgrade, and additional postage.

Oversight notes that this proposal would require DOR to deposit all collections from the amnesty program, except for those which are earmarked by the Missouri Constitution, into the state General Revenue Fund. Accordingly, Oversight will indicate an unknown positive fiscal impact from this proposal in FY 2012 for the Conservation Commission Fund and the Parks and Soils Sales Tax Funds. Other state funds and local governments which would receive additional tax collections under existing provisions would not have a fiscal impact from the amnesty program.

ASSUMPTION (continued)

Oversight also notes that this proposal would authorize DOR to waive penalties, interest, and additions to tax which would be applied and collected under existing provisions regarding delinquent tax administration. Oversight assumes the additional taxes collected would exceed the penalties, interest and additional taxes which would have been collected, and for fiscal note purposes only will indicate an unknown loss of revenue in the General Revenue Fund, the Conservation Commission Fund, and the Parks and Soils Tax Funds in FY 2012 for the potential penalties, interest, and tax additions waived.

Amendment 1

These provisions would authorize the Department of Revenue and the Office of Administration to enter into a reciprocal agreement with the federal government. Under this agreement, the state would offset from state tax refunds or from payments due to vendors and contractors debt owed to the federal government. The federal government would offset from federal payments otherwise due to vendors, contractors, and taxpayers debt owed to the state.

Officials from the **Department of Revenue** (DOR) assumed this proposal would result in additional collections of delinquent taxes and other state debt. DOR officials stated that a data match with IRS indicated first year collections of approximately \$7 million. In addition, DOR officials stated that other states which had initiated IRS match procedures experienced reduced collections after the first year.

Finally, DOR officials stated that IRS charges \$17 per match, and there would be costs of approximately \$131,000 the first year for postage and mailing costs, and the IRS fees. DOR officials said there could also be costs to the Office of Administration to extend the IRS match process to vendor and contractor payments.

Due to timing issues, Oversight did not receive any other responses on this amendment.

Oversight assumes these provisions would result in additional collections of state debts but is not able to estimate the amounts which would be collected. Oversight will indicate unknown additional revenues to the General Revenue Fund, to those state funds which receive sales tax revenues, to various other state funds, and to local governments. Oversight will also include unknown collection costs for the IRS match contract, including postage, forms, printing, IRS fees, and programming costs. For fiscal note purposes, Oversight will include those costs in the state General Revenue Fund.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE FUND			
<u>Additional revenue</u> - tax amnesty program	<u>More than</u> <u>\$100,000</u>	<u>Unknown</u>	<u>Unknown</u>
<u>Additional revenue</u> - collection procedure improvements	<u>More than</u> <u>\$337,827</u>	<u>More than</u> <u>\$236,124</u>	<u>More than</u> <u>\$237,808</u>
<u>Additional revenue</u> - federal reciprocal agreement	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>Cost</u> - Secretary of State IT upgrades	<u>(Less than</u> <u>\$100,000)</u>	<u>\$0</u>	<u>\$0</u>
<u>Cost</u> - Department of Revenue Salary (1.0 FTE)	(\$18,900)	(\$23,360)	(\$24,061)
Overtime	(\$68,000)	\$0	\$0
Fringe benefits	(\$45,483)	(\$12,227)	(\$12,594)
Equipment and expense	<u>(\$5,444)</u>	<u>(\$537)</u>	<u>(\$553)</u>
Total	<u>(\$137,827)</u>	<u>(\$36,124)</u>	<u>(\$37,208)</u>
<u>Cost</u> - Department of Revenue - collection procedures, amnesty program, consulting, system upgrade, and additional postage.	<u>(More than</u> <u>\$100,000)</u>	<u>(More than</u> <u>\$100,000)</u>	<u>(More than</u> <u>\$100,000)</u>
<u>Cost</u> - Department of Revenue IRS match process	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<u>Revenue reduction</u> - interest, penalties, and additions to tax waived.	<u>(Unknown)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>More than</u> <u>\$100,000</u>	<u>More than</u> <u>\$100,000</u>	<u>More than</u> <u>\$100,000</u>

Estimated Net FTE Effect on General Revenue Fund	1	1	1
<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
CONSERVATION COMMISSION FUND			
<u>Additional Revenue</u> - Tax amnesty program	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>Additional Revenue</u> - collection procedure improvements _____	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>Additional revenue</u> - federal reciprocal agreement	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>Revenue reduction</u> - interest, penalties, and additions to tax waived.	<u>(Unknown)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
PARKS, AND SOIL AND WATER FUNDS			
<u>Additional Revenue</u> - Tax amnesty program	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>Additional Revenue</u> - collection procedure improvements	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>Revenue reduction - interest, penalties, and additions to tax waived.</u>	<u>(Unknown)</u>	<u>\$0</u>	<u>\$0</u>
<u>Additional revenue - federal reciprocal agreement</u>	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUNDS	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
SCHOOL DISTRICT TRUST FUND			
<u>Additional Revenue</u> - collection procedure improvements	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>Additional revenue</u> - federal reciprocal agreement	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
VARIOUS STATE FUNDS			
<u>Additional revenue</u> - collection procedure improvements	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>Additional revenue</u> - federal reciprocal agreement	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
ESTIMATED NET EFFECT ON VARIOUS STATE FUNDS	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
LOCAL GOVERNMENTS			
<u>Additional Revenue</u> - collection procedure improvements	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>Additional revenue</u> - federal reciprocal agreement	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>

FISCAL IMPACT - Small Business

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

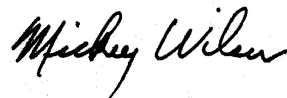
FISCAL DESCRIPTION

The proposed legislation would create a tax amnesty program for certain taxes paid between August 1, 2011, to October 31, 2011, and would provide improved collection procedures for the Department of Revenue.

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 Agriculture
Department of Conservation
Department of Elementary and Secondary Education
Department of Health and Senior Services
Department of Natural Resources
Department of Revenue



Mickey Wilson, CPA
Director
March 2, 2011