COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0619-01
Bill No.: Perfected HB 253
Subject: Business and Commerce; Taxation and Revenue - Income
Type: Original
Date: April 10, 2013

Bill Summary: This proposal would change provisions relating to the taxation of business income.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue *	(More than $99,039,815)	(More than $105,030,134 to More than $171,832,134)	(More than $105,032,972 to More than $237,606,972)
Total Estimated Net Effect on General Revenue Fund *	**(More than $99,039,815)**	**(More than $105,030,134 to More than $171,832,134)**	**(More than $105,032,972 to More than $237,606,972)**

*Fully implemented fiscal impact from (More than $105,032,972 to More than $364,946,972) for FY 2018 and later years.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 25 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Conservation Commission	(More than $1,281,558)	(More than $1,537,870)	(More than $1,537,870)
Parks, and Soil and Water	(More than $1,025,247)	(More than $1,230,296)	(More than $1,230,296)
School District Trust	(More than $10,252,468)	(More than $12,302,962)	(More than $12,302,962)
Total Estimated Net Effect on Other State Funds	**(More than $12,559,273)**	**(More than $15,071,128)**	**(More than $15,071,128)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	7 FTE	7 FTE	7 FTE
Total Estimated Net Effect on FTE	**7 FTE**	**7 FTE**	**7 FTE**

☒ 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 2014	FY 2015	FY 2016
Local Government	**(More than $25,631,171)**	**(More than $30,757,405)**	**(More than $30,757,405)**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State** assume this proposal would have no fiscal impact on their organization.

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

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

Personal income tax

BAP officials noted that this proposal would phase in a deduction of business income from individual income tax, increasing from 10% in the first year, to 50% in the final year. The deductions would occur if the Office of Administration (OA) determines revenues have increased. If the average payroll of a particular business exceeds 150% of the county average wage, the full 50% deduction shall immediately apply.

Business Income would be defined as income greater than zero arising from transactions and activity in the regular course of the taxpayer's trade or business, and would include income from tangible property if the acquisition, management, and disposition of the property are integral parts of the taxpayer's regular trade or business operations.

ASSUMPTION (continued)

BAP does not have data that specifically identifies taxable "business income". The IRS, in its Statistics of Income publication, provides the data for Missouri in the chart below from tax year 2010. BAP notes it is possible that Capital Gains or Dividend Income, as well as additional forms of income, could be included in business income in certain cases. BAP assumes that business income would exceed $10.5 billion. At the highest 6% marginal tax rate, the exclusion of 50% of business income could exceed $315 million, notwithstanding any inflationary growth.

Adjusted Gross Income ($Millions)	$135,415
Business Income	$3,960
Partnership Income	$6,565
Sub - total	$10,525
Ordinary Dividends	$3,295
Qualified Dividend	$2,680
Net Capital Gain	$3,803
Sub - total	$9,777
Total	$20,302

Oversight notes that the information provided by BAP indicates that business income from self-employed people and partnerships would equal $10,525 million, and the proposal would provide a maximum exclusion of 50% of that or ($10,525 million x 50%) = $5,262.50 million which would lead to a maximum personal income tax reduction of ($5,262,50 million x 6%) = $315.750 million.

Further, Oversight notes that if dividends and net capital gains are to be excluded from taxable income as well as self-employment and partnership income, then 50% of an additional $9,777 million or ($9,977 million x 50%) = $4,988.50 million would be excluded and personal income tax revenue would be reduced by an additional ($4,988.50 million x 6%) = $299.31 million. The total revenue reduction would then be ($315.750 million + $299.31 million) = $615.06 million.

ASSUMPTION (continued)

Corporate income tax

This proposal would reduce the corporate tax rate over five years, from 6.25% to 3.125%. The reductions would occur if the Office of Administration determines revenues have increased. If the average payroll of a particular business exceeds 150% of the county average wage, the full 50% deduction would immediately apply.

In FY 2012, $275.6 million in net corporate taxes was received. Notwithstanding any inflationary growth, this proposal would reduce general and total state revenues as in the chart below:

Year	Tax rate	Revenues (millions)	Revenue reduction (millions)
FY 2012	6.250%	$275.60	$0.00
Year 1	5.625%	$248.00	$27.60
Year 2	5.000%	$220.50	$55.10
Year 3	4.375%	$192.90	$82.70
Year 4	3.750%	$165.40	$110.20
Year 5	3.125%	$137.80	$137.80

Officials from the **Department of Revenue (DOR)** assume this proposal would reduce the corporate income tax rate and would create a graduated deduction for personal business income.

DOR officials assume the Department would need to make form changes, and the Department and OA - ITSD (DOR) would need to make programming changes to various tax systems. DOR officials noted the proposal would provide different income tax rates and deductions in the same year based on whether or not the business pays more than the county average wage.

DOR officials assume the Department would need to make form changes and the Department and OA - ITSD (DOR) would need to make programming changes to various tax systems.

ASSUMPTION (continued)

Fiscal impact

DOR officials stated that for calendar year 2011, Missouri individual income tax filers reported $11.7 billion in "business" income of their federal form 1040s. The Department included the total reported on Schedule C, Schedule D, Schedule E and Schedule F in the calculation. Some portion of the $11.7 billion reported could have been earned outside the state of Missouri and would not have been taxable in Missouri. In addition, the $11.7 billion estimate does not include any Missouri business income included on a federal return filed by an individual that did not have a Missouri address.

Based on $11.7 billion in business income, and at the tax rate of 6 percent, the Department estimated the following reduction in individual income tax:

First year	$70.2 million
Second year	$140.4 million
Third year	$210.6 million
Fourth year	$280.8 million
Fifth year	$351.0 million

If any business income is subtracted at a rate of 50% in the manner provided in the proposal, the annual reductions noted above may be increased or decreased.

DOR officials also reported that for calendar year 2010, Missouri corporate taxpayers reported $5.6 billion in taxable income and $350 million in tax. Based on the estimated tax of $350 million, the Department estimates the following reduction in corporate income tax:

First year	$34 million
Second year	$70 million
Third year	$105 million
Fourth year	$140 million
Fifth year	$175 million

ASSUMPTION (continued)

Administrative impact

DOR officials assume that implementing this proposal would require additional employees. Personal Tax would require two additional Temporary Tax Employees for key entry; one additional FTE Revenue Processing Technician I (Range 10, Step L) per 19,000 additional errors; and one additional FTE Revenue Processing Technician I (Range 10, Step L) per 2,400 pieces of correspondence. Collections & Tax Assistance (CATA) would require one additional FTE Tax Collection Technician I (Range 10, Step L) per 15,000 additional contacts annually to the delinquent tax call center, plus CARES license and equipment; one additional FTE Tax Collection Technician I (Range 10, Step L) per 15,000 additional contacts annually to the non-delinquent call center, plus CARES license and equipment; and one additional FTE Revenue Processing Technician I (Range 10, Step L) per 4,800 additional contacts annually to the tax assistance offices plus CARES license and equipment for the Jefferson City tax assistance office. Corporate Tax would require one additional FTE Revenue Processing Technician I (Range 10, Step L) per 7,800 additional errors generated, plus CARES license and equipment; and one additional FTE Revenue Processing Technician I (Range 10, Step L) per 2,600 additional pieces of correspondence generated, plus CARES license and equipment.

The DOR estimate of cost to implement this proposal included two part-time employees and seven additional employees; with benefits, equipment, and expense, the DOR estimate totaled $301,123 for FY 2014, $302,023 for FY 2015, and $305,199 for FY 2016.

Oversight assumes the DOR estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly $6,000 per employee.

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 and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

ASSUMPTION (continued)

IT impact

DOR officials assume the IT cost to implement this proposal would be $54,533, based on 2,016 hours of programming to make changes to DOR systems.

Oversight will include the DOR estimate of IT cost in this fiscal note.

Officials from the **University of Missouri, Economic Policy Analysis and Research Center (EPARC)** assume this proposal would, if enacted, potentially reduce the corporate tax rate to 3.125% as well as potentially allow individual taxpayers to subtract 50% of their "business income" from their Federal Adjusted Gross Income when determining their Missouri adjusted Gross Income.

For tax years beginning on or after January 1, 2013, the 3.125% corporate tax rate and the 50% "business income" subtraction would be immediately available if average payroll for the business exceeds 150% of the county average wage in the county in which the business or corporation is located. For taxpayers that do not meet this average payroll requirement, the corporate tax rate reduction and the "business income" subtraction would be phased-in gradually based upon the growth of aggregate Missouri income tax collections beyond FY2011 levels.

EPARC officials stated they do not possess the data to discern which businesses or corporations meet the average payroll requirement, nor are they able to determine from which business or corporation any individual taxpayer derives their income. Therefore, we will proceed with this analysis by making two separate assumptions about the average payroll requirement that will yield two separate simulations. The first simulation will be based on the assumption that NO business or corporation is able to meet the average payroll requirement, and the second simulation will be based on the assumption that ALL businesses and corporations are able to meet the average payroll requirement. Our simulations will yield a maximum impact estimation.

ASSUMPTION (continued)

Personal income tax

We will begin by defining "business income," then summarize the manner in which this proposal would allow a phase-in of the corporate tax rate reduction and "business income" subtraction, and finally discuss our simulation findings. Business Income is assumed to be self-employment income. We estimate each taxpayer's self-employment income by dividing each filer's self-employment tax by their applicable tax rate as reported on their Federal 1040. Doing so, we estimate aggregate positive business income of $7,229,010,965 for 312,226 Missouri filers.

* In the first tax year that OA determines that aggregate income tax collections from the previous fiscal year are equal to or greater than collections for FY 2011, the corporate income tax rate would be reduced to 5.625% and a "business income" subtraction of 10% would be allowed.

* In the second tax year that OA determines that aggregate income tax collections from the previous fiscal year are indeed equal to or greater than FY 2011, the corporate income tax rate would be reduced to 5% and a "business income" subtraction of 20% would be allowed.

* In the third tax year that OA determines that aggregate income tax collections from the previous fiscal year are indeed equal to or greater than collections for FY 2011, the corporate income tax rate would be reduced to 4.375% and a "business income" subtraction of 30% would be allowed.

* In the fourth tax year that OA determines that aggregate income tax collections from the previous fiscal year are indeed equal to or greater than collections for FY 2011, the corporate income tax rate would be reduced to 3.75% and a "business income" subtraction of 40% would be allowed.

* In the fifth tax year that OA determines that aggregate income tax collections from the previous fiscal year are indeed equal to or greater than collections for FY 2011, the corporate income tax rate would be reduced to 3.125% and a "business income" subtraction of 50% would be allowed.

ASSUMPTION (continued)

Tax Year	Business Income Subtraction	Individual Income Tax Revenue	Reduction in Individual Income Tax Revenue
Baseline	0	$4,693.390	$0.000
Year 1	10%	$4,663.934	$29.456
Year 2	20%	$4,635.522	$57.868
Year 3	30%	$4,608.141	$85.249
Year 4	40%	$4,582.100	$111.290
Year 5	50%	$4,557.582	$135.808

Corporate income tax

Using the latest 2010 corporate income tax data as our baseline, where the aggregate liability is equal to $383.905 million, we find this aggregate liability would be reduced to $345.514 million in the first year OA determines that aggregate income tax collections from the previous fiscal year are indeed equal to or greater than FY 2011 and the corporate income tax rate is reduced to 5.625%, to $307.124 million in the second year when the corporate income tax rate is reduced to 5%, to $268.733 million in the third year when the corporate income tax rate is reduced to 4.375%, to $230.342 million in the fourth year when the corporate income tax rate is reduced to 3.75%, and to $191.952 million in the fifth year when the corporate income tax rate is reduced to 3.125%.

ASSUMPTION (continued)

Tax Year	Corporate Income Tax Rate	Corporate Income Tax Revenue	Reduction in Corporate Income Tax Revenue
Baseline	6.250%	$383.905	$0.000
Year 1	5.625%	$345.514	$38.391
Year 2	5.000%	$307.124	$76.781
Year 3	4.375%	$268.733	$115.172
Year 4	3.750%	$230.342	$153.563
Year 5	3.125%	$191.952	$191.953

Oversight notes that according to Department of Revenue records, personal and corporate income tax collections for FY 2012 were greater than collections for FY 2011. Accordingly, Oversight assumes this proposal would lead to a corporate tax rate reduction and a personal business income exclusion as provided in the proposal. Since the proposal would apply those changes to tax years beginning January 1, 2013, Oversight assumes those changes would be reflected in 2013 tax returns filed beginning January 1, 2014 (FY 2014).

For FY 2015 and FY 2016, the revenue reductions would be shown as a range from the reduction for FY 2014 to the maximum reduction computed by EPARC. The maximum rate reduction could be available in two ways; if all profitable employers paid more than the county average wage, or if actual collections for FY 213 and FY 2014 exceeded collections for FY 2011.

ASSUMPTION (continued)

Amendment 1

This provision would change Section 143.221 RSMo. to increase the threshold for quarterly withholding tax filing from $20 to $100.

In response to HB 105, LR 0566-01, officials from the **Office of the Secretary of State (SOS)** assumed 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 this 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.

In response to HB 105, LR 0566-01, officials from the **Joint Committee on Administrative Rules** assumed the proposal would not have a fiscal impact to their organization beyond its current appropriation.

In response to HB 105, LR 0566-01, officials from the **Office of Administration - Division of Budget and Planning (BAP)** assumed the proposal would not result in additional costs or savings to their organization.

BAP officials noted the proposal would increase the threshold for annual withholding filers from $20 to $100. Withholding taxes that would have otherwise been collected on a quarterly basis in April, July, and October would be delayed until January. This proposal would not directly impact General and Total State Revenues in the aggregate, but could have a cash flow impact across fiscal years.

ASSUMPTION (continued)

Assuming the bill is effective Aug. 28, 2013, quarterly payments due in October 2013 would instead be remitted in January 2014. This would have no cash effect overall for FY 2014, though the timing of payments would be different. However, quarterly payments due in April and July of 2014 would not arrive until January 2015. Therefore, revenue collections would be reduced in FY 2014, and collections in FY 2015 would be increased by similar amounts. Similar patterns would follow in subsequent years.

BAP officials also stated the Department of Revenue indicated approximately 6,500 businesses would be impacted by this proposal. BAP defers to DOR for estimated withholding amounts.

In response to HB 105, LR 0566-01, officials from the **Department of Revenue (DOR)** assumed the proposal would allow an employer to file on an annual basis if that employer had less than $100 in withholding tax in each of the four preceding quarters. The Director of Revenue could change the amount required for making an annual payment but the amount could not be less than $100.

Revenue Impact

DOR officials assumed the proposal would not reduce Total State Revenue, but would delay the collection of withholding taxes. This proposal would impact approximately 6,500 businesses that could delay the remittance of withholding taxes which would have been paid in April, July, and October until January of the following year.

Administrative Impact

DOR officials assumed the Department would need to make forms changes, and the Department and OA - ITSD (DOR) would need to make programming changes to various tax systems.

DOR officials did not include an estimate of cost to implement the proposal, and **Oversight** assumes this proposal could be implemented with existing DOR resources.

IT Impact

DOR officials reported an estimate of the IT impact to implement this proposal of $1,082 based on an estimated 40 hours of programming to make changes to DOR systems.

ASSUMPTION (continued)

Oversight assumes OA - ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight also assumes OA - ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA - ITSD (DOR) could request funding through the appropriation process.

Oversight assumes this proposal would allow certain employers to delay filing and paying withholding taxes, which are currently due on a quarterly basis, until the following January 31. The amount of tax due and the overall amount of revenue for a tax year would not change; however, implementing this proposal could delay receipt of withholding taxes as explained below.

* Taxes withheld for the third calendar quarter ending September 30, 2013 are currently filed and paid by October 31; the proposal would include those taxes in an annual filing due January 31, 2014. Those taxes would be received in the same fiscal year (FY 2014) as currently required, although filing and payment of those funds would be delayed three months. For fiscal note purposes there would be no impact from that delay.

* Taxes withheld for the fourth calendar quarter ended December 31, 2013 would be paid January 31, 2014 as currently required.

* Taxes withheld for the first calendar quarter ending March 31, 2014 (FY 2014) are currently required to be filed and paid by April 30, 2014. The proposal would include those taxes in an annual filing due January 31, 2015, and they would be paid in January 2015 (FY 2015) instead of in April 2014. That delay would be permanent, as each year's first quarter withholding taxes would be paid the following state fiscal year.

* Based on the number of filers provided by the Department of Revenue, the amount of taxes delayed over the end of a state fiscal year could range from (6,500 filers x the current $20 threshold) = $130,000 to (6,500 filers x the new $100 threshold) = $650,000.

ASSUMPTION (continued)

- * Taxes withheld for the calendar quarters ending June 30, 2014 and September 30, 2014 would be paid in January, 2015. Those taxes would also be paid in the same fiscal year as currently required but would be delayed six months and three months, respectively, as compared to current requirements.

For fiscal note purposes, **Oversight** will assume this proposal would result in an unknown revenue reduction greater than $100,000 for FY 2014. For FY 2015 and subsequent years, the previous year revenue received and the current year revenue deferred to the next year would be approximately equal.

Oversight also notes that this proposal would result in a permanent reduction in the number of payroll tax returns processed; the reduction would likely be somewhat less than three quarters' returns for the affected businesses or (3 x 6500) = 19,500 fewer returns.

In response to a similar proposal in the previous session (HCS for HB 1717, LR 5148-02, 2012) DOR officials assumed most of the small quarterly return filers would be electronic filers and the proposal would not likely lead to a reduction in the number of tax return errors or phone calls sufficient to allow a staff reduction.

Amendment 2

This provision would amend Section 144.020 RSMo to exempt from sales tax all fees paid to any place of amusement, entertainment, or recreation, games, and events recreation fees.

In response to HB 149 LR 0533-01, officials from the **Joint Committee on Administrative Rules** assumed the proposal would not have a fiscal impact to their organization in excess of existing resources.

In response to HB 149 LR 0533-01, officials from the **Department of Revenue (DOR)** assumed the proposal would exempt amounts paid for admission, seating, accommodations, or fees paid to places of recreation from the state sales tax. Based on taxable sales figures from 2011, DOR officials estimated a reduction in sales tax revenue to the General Revenue Fund of approximately $22.2 million and a reduction in Total State Revenue of $31.2 million.

ASSUMPTION (continued)

Administrative impact

DOR officials assumed Collections and Tax Assistance (CATA) would need to send letters to all "recreation" businesses to determine if they have sales that are still taxable. Also, CATA would see an increase in phone calls, file maintenance, and bond refunds based on this legislation.

DOR officials assumed CATA would require one additional FTE Revenue Processing Technician I (Range 10, Step L) per 24,000 additional contacts annually to the registration section, with CARES equipment and agent license; and one additional FTE Revenue Processing Technician I (Range 10, Step L) per 4,800 additional contacts annually to the tax assistance offices, with CARES equipment and agent license. In addition, the Legal Services Division would require one additional FTE Legal Counsel to cover additional sales tax litigation.

The DOR estimate of fiscal impact for this proposal included three additional employees; with benefits, equipment, and expense, the DOR estimate totaled $147,618 for FY 214, $159,096 for FY 215, and $160,736 for FY 2016.

Oversight notes that DOR officials assumed a similar proposal in a previous session (SB 288 LR 1587-01, 2011) would have no fiscal impact on their organization, and will not include any DOR costs in the fiscal impact for this proposal. Oversight assumes that notification costs to potentially exempt sellers would be provided in regular DOR communications to sales tax licensees.

In response to HB 149 LR 0533-01, officials from the **City of Kansas City** assumed exempting from local sales tax amounts paid for admission or fees to places of recreation would result in the following annual revenue losses to their organization, assuming an effective date for the legislation at the end of August, 2013:

Fiscal year ending April 30, 2014:	$866,667 revenue loss (8 months loss)
Fiscal year ending April 30, 2015:	$1,300,000 revenue loss
Fiscal year ending April 30, 2016:	$1,300,000 revenue loss

Officials from **St. Louis County** assumed HB 149 LR 0533-01 would result in a small but unknown loss to their organization.

ASSUMPTION (continued)

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assumed HB 149 LR 0533-01 would not result in additional costs or savings to their organization.

BAP officials stated the proposal would create a state and local sales tax exemption for the amount paid for admission and seating accommodations, or fees paid to, or in, any place of recreation. BAP officials noted that "recreation" is not defined in statute.

BAP officials provided information from the Department of Revenue (DOR) for taxable sales from SIC Code 79, Amusement and Recreation Services, in 2011, and noted that sales taxes may be reduced by the amounts below. BAP officials noted that these sales may include sales of tangible goods, which would not be exempt under this proposal. Also, additional sellers not classified in SIC 79 could also be classified as "recreation", which would increase the revenue loss.

Reported Sales

SIC	DESCRIPTION	SALES TOTAL
791	DANCE HALLS, STUDIOS, AND SCHOOLS	$4,936,920.82
792	PRODUCERS, ORCHESTRAS, ENTERTAINERS	$54,026,838.31
793	BOWLING BILLARD ESTABLISHMENTS	$72,623,115.43
794	COMMERCIAL SPORTS	$339,909,520.89
798	RIVERBOATS - NO GAMBLING	$124,954,004.45
799	MISC. AMUSEMENT AND RECREATION	$633,845,781.00
79	AMUSEMENT/RECREATION SERVICES	$1,230,296,180.90

Sales Tax Revenue

General Revenue Fund	$36,908,885
School District Trust Fund	$12,302,962
Conservation Commission Fund	$1,537,870
Parks, and Soils and Water Fund	$1,230,296

Oversight will use the BAP / DOR estimate of sales tax revenue and will assume that Local governments would have a revenue reduction of ($1,230,296,181 X 2 ½ % average rate) = $30,757,405. Oversight calculated the 2 ½ % average local sales tax rate based on DOR reported collections of local sales tax. For fiscal note purposes, Oversight will include losses as follows:

ASSUMPTION (continued)

	FY 2014 (10 months)	Full year
General Revenue Fund	$30,757,404	$36,908,885
School District Trust Fund	$10,252,468	$12,302,962
Conservation Commission Fund	$1,281,558	$1,537,870
Parks, and Soil and Water Fund	$1,025,247	$1,230,296
Local governments	$25,631,171	$30,757,405

Officials from the **Office of the Secretary of State** assume this proposal would have no fiscal impact on their organization.

Amendment 3

This provision would amend Section 144.030 RSMo. to exempt from sales tax all sales of titled mining or manufacturing equipment.

In response to similar language in HB 397 LR 1139-01 officials from the **Office of the Secretary of State (SOS)** stated 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 this 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.

ASSUMPTION (continued)

Officials from the **Joint Committee on Administrative Rules** assumed similar language in HB 397 LR 1139-01 would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Department of Conservation** assumed similar language in HB 397 LR 1139-01 would have an unknown impact to their organization greater than $100,000.

In response to similar language in HB 397 LR 1139-01 officials from **St. Louis County** assumed the loss would not be great but could not provide an estimate of the amount.

In response to similar language in HB 397 LR 1139-01 officials from the **City of Kansas City** stated they were unable to provide an estimate of the potential loss of sales tax revenue for the proposal.

Due to the limited amount of time available to prepare this fiscal note, **Oversight** was not able to obtain adequate information regarding the numbers or amounts of Misouri sales for titled mining or manufacturing equipment. Accordingly, Oversight will assume this provision would cause an unknown revenue reduction to the General Revenue Fund, other state funds which receive general sales tax revenues, and local governments. Oversight assumes this provision would not allow a sales tax exemption for vehicles licensed for road use and would not have an impact on road or transportation funds.

FISCAL IMPACT - State Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE FUND			
Additional revenue - DOR Previous year withholding taxes paid Section 143.221 (HA1)	$0	More than $100,000	More than $100,000
Revenue reduction - DOR Delayed filing and payment of withholding taxes Section 143.221, RSMo (HA1)	(More than $100,000)	(More than $100,000)	(More than $100,000)
Revenue reduction - DOR Sales tax exemption on recreation fees Section 144.020 (HA2)	($30,757,404)	($36,908,885)	($36,908,885)
Revenue reduction - DOR Sales tax exemption on equipment Section 144.030 (HA3)	(Unknown)	(Unknown)	(Unknown)
Cost - Department of Revenue			
Salaries	($147,960)	($177,708)	($179,485)
Benefits	($75,082)	($90,178)	($91,080)
IT costs	($54,533)	$0	$0
Equipment and expense	($57,836)	($6,363)	($6,522)
Total cost - Department of Revenue	($335,411)	($274,249)	($277,087)
FTE change - DOR	7 FTE	7 FTE	7 FTE
Revenue reduction - corporate tax rate reduction Section 143.071	($38,391,000)	($38,391,000 to $76,781,000)	($38,391,000 to $115,172,000)

FISCAL IMPACT - State Government (continued)	FY 2014 (10 Mo.)	FY 2015	FY 2016
Revenue reduction - personal business income exclusion Section 143.031	($29,456,000)	($29,456,000 to $57,868,000)	($29,456,000 to $85,249,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND *	**(More than $99,039,815)**	**(More than $105,030,134 to More than $171,832,134)**	**(More than $105,032,972 to More than $237,606,972)**

*Fully implemented fiscal impact from (More than $105,032,972 to More than $364,946,972) for FY 2018 and later years.

Estimated FTE effect on General Revenue Fund	7 FTE	7 FTE	7 FTE
CONSERVATION COMMISSION FUND			
Revenue reduction - DOR Sales tax exemption on recreation fees Section 144.020 (HA2)	($1,281,558)	($1,537,870)	($1,537,870)
Revenue reduction - DOR Sales tax exemption on equipment Section 144.030 (HA3)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	**(More than $1,281,558)**	**(More than $1,537,870)**	**More than ($1,537,870)**

FISCAL IMPACT - State Government (continued)	FY 2014 (10 Mo.)	FY 2015	FY 2016
PARKS, AND SOIL AND WATER FUNDS			
Revenue reduction - DOR Sales tax exemption on recreation fees Section 144.020 (HA2)	($1,025,247)	($1,230,296)	($1,230,296)
Revenue reduction - DOR Sales tax exemption on equipment Section 144.030 (HA3)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUNDS	**(More than $1,025,247)**	**(More than $1,230,296)**	**(More than $1,230,296)**
SCHOOL DISTRICT TRUST FUND			
Revenue reduction - DOR Sales tax exemption on recreation fees Section 144.020 (HA2)	($10,252,468)	($12,302,962)	($12,302,962)
Revenue reduction - DOR Sales tax exemption on equipment Section 144.030 (HA3)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**(More than $10,252,468)**	**(More than $12,302,962)**	**(More than $12,302,962)**

FISCAL IMPACT - Local Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
LOCAL GOVERNMENTS			
Revenue reduction - DOR Sales tax exemption on recreation fees Section 144.020 (HA2)	($25,631,171)	($30,757,405)	($30,757,405)
Revenue reduction - DOR Sales tax exemption on equipment Section 144.030 (HA3)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**(More than $25,631,171)**	**(More than $30,757,405)**	**(More than $30,757,405)**

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which are subject to income tax.

FISCAL DESCRIPTION

This proposal would create the Broad-Based Tax Relief Act of 2013 which reduces the tax on corporate business income and business income for sole proprietors, partners, and shareholders in S-corporations.

For all tax years beginning on or after January 1, 2013, the amount of business income subject to tax would be determined by the Office of Administration comparing Missouri net individual and corporation income tax revenue received in the fiscal year ending on June 30, 2011, to Missouri net individual and corporation income tax revenues received in the fiscal year ending on June 30 of the tax year before the tax year of determination. If the result of the comparison shows a decrease from the 2011 year, the percentage of business income to be taxed would not change until the time that the comparison shows the revenues to be equal to or increased from 2011. Once the comparison shows the revenues to be equal to or increased, business income would be taxed at 90% for the year following the determination, then each year the comparison shows the revenues to be equal to or increased from 2011, business income would be taxed at 80%, then 70%, then 60%, and then 50% for each subsequent tax year.

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FISCAL DESCRIPTION (continued)

For all tax years beginning on or after January 1, 2013, the corporate tax rate would be determined by the Office of Administration comparing Missouri net individual and corporation income tax revenue received in the fiscal year ending on June 30, 2011, to Missouri net individual and corporation income tax revenues received in the fiscal year ending on June 30 of the tax year before the tax year of determination. If the result of the comparison shows a decrease from the 2011 year, the corporate tax rate would remain the same until the time that the comparison shows the revenues to be equal to or increased from 2011. Once the comparison shows the revenues to be equal to or increased, the tax rate would be decreased from 6.25% to 5.625% for the year following the determination, then each year the comparison shows the revenues to be equal to or increased from 2011, the tax rate would decrease to 5%; then 4.375%, then 3.75% and finally to 3.125% for each subsequent tax year. Once a decrease occurs in the amount of the tax imposed, the tax rate cannot increase even if the sum of the Missouri net corporation income tax revenues and the Missouri net individual income tax revenues received in any following fiscal year ending on June 30 of any following tax year are less than the sum of the Missouri net corporation income tax revenues and the Missouri net individual income tax revenues received in the fiscal year ending on June 30, 2011. For all tax years beginning on or after January 1, 2013, if the average payroll for the tax year of a corporation exceeds 150% of the county average wage in the county in which the corporation is located the tax imposed upon the Missouri taxable income of corporations would be 3.125% of Missouri taxable income with specified exceptions.

* Amendment 1 would increase the threshold for quarterly withholding tax filing from $20 to $100.

* Amendment 2 would exempt from sales tax fees paid to any place of amusement, entertainment, or recreation, games, and events recreation fees.

* Amendment 3 would exempt from sales tax all sales of titled mining or manufacturing equipment.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
Office of Administration
    Division of Budget and Planning
Department of Conservation
Department of Revenue
University of Missouri
    Economic Policy and Analysis Research Center
St. Louis County
City of Kansas City

Ross Strope
Acting Director
April 10, 2013

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