

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1792-01
Bill No.: SB 407
Subject: Taxation and Revenue - Income
Type: Original
Date: March 27, 2013

Bill Summary: This proposal would make all of an individual's federal income tax deductible for personal income tax purposes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	\$0	(\$477,562,385)	(\$477,605,246)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$477,562,385)	(\$477,605,246)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>Other</u> 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 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	0	4 FTE	4 FTE
Total Estimated Net Effect on FTE	0	4 FTE	4 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	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 143.171, RSMo. - Federal Income Tax Deduction:

Officials from the **Office of the Secretary of State (SOS)** assume 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.

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.

BAP officials note this proposal would remove the cap on federal income tax deductibility for state income taxes. The revenue generated from the establishment of this cap is transferred into the outstanding schools trust fund. BAP officials assume this proposal would Reduce General and Total State Revenues by several hundred million dollars, but were not able to provide a more precise estimate.

Officials from the **Department of Revenue (DOR)** assume this proposal would allow a deduction for all of an individual's federal income tax on Missouri returns.

Beginning January 1, 2014, an individual taxpayer would be allowed a deduction for his or her federal income tax liability for the same year for which the Missouri return is being filed. The allowable deduction would be net of all credits, except the credit for payments of federal estimated tax, the credit for the overpayment of any federal tax, and the credits allowed for taxes withheld on wages, taxes of foreign countries and United States possessions, and taxes on certain uses of gasoline, special fuels, and lubricating oils.

ASSUMPTION (continued)

Fiscal impact

DOR officials assume this proposal would significantly reduce revenues to the General Revenue Fund.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$9,089 based on 336 hours of programming to make changes to DOR systems.

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight 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.

Administrative impact

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 assume Personal Tax would require one additional Revenue Processing Technician I (Range 10, Step L) per 19,000 additional individual income tax errors created, and one additional Revenue Processing Technician I (Range 10, Step L) per 2,400 additional pieces of correspondence.

In addition, DOR officials assume Collections and Tax Assistance would require one additional Tax Collection Technician I (Range 10, Step L) per 15,000 additional contacts annually to the non-delinquent tax line, plus CARES equipment and license, and one additional Revenue Processing Technician I (Range 10, Step L) per 4,800 additional contacts annually to the field offices, plus CARES equipment and license for the Jefferson City Tax Assistance Office.

The DOR response included four additional employees and related benefits, equipment, and expense, and totaled \$181,051 for FY 2014, \$166,402 for FY 2015, and \$168,201 for FY 2016.

ASSUMPTION (continued)

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 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.

Officials from the **University of Missouri - Economic and Policy Analysis Research Center (EPARC)** noted this proposal would, if enacted, make all of an individual's federal income tax deductible for Missouri personal income tax purposes.

The EPARC baseline simulation for Missouri individual income tax using 2011 data and current provisions as a baseline indicated a total Net Tax Due of \$4,693.390 million. A simulation allowing a deduction for the individuals' full federal income tax for individual income tax purposes indicated a total Net Tax Due of \$4,215.929 million, a reduction of \$477.461 million.

Oversight notes the EPARC projection is based on calendar years. Although some filers could reduce their income tax withholding or their quarterly estimated payments, Oversight assumes for fiscal note purposes the full revenue reduction would be effective in the following fiscal year when individual income tax returns are filed.

Oversight will include the EPARC estimate of revenue reduction, and the DOR estimated cost (as adjusted) for FY 2015 and FY 2016. Because tax return filing for 2014 returns would begin in January 2015, Oversight will include six months of DOR cost for FY 2015.

Officials from the **Joint Committee on Administrative Rules** and the **Department of Elementary and Secondary Education** each assume the proposal would not fiscally impact their respective agencies.

<u>FISCAL IMPACT - State Government</u>	FY 2014	FY 2015 (6 Mo.)	FY 2016
GENERAL REVENUE FUND			
<u>Cost - DOR</u>			
<u>Federal tax deduction</u>			
Section 143.171			
Salaries	\$0	(\$46,272)	(\$93,469)
Benefits	\$0	(\$23,481)	(\$47,431)
Equipment and expense	<u>\$0</u>	<u>(\$31,632)</u>	<u>(\$3,346)</u>
Total	\$0	(\$101,385)	(\$144,246)
FTE change - DOR	0	4 FTE	4 FTE
 <u>Revenue reduction - DOR</u>			
<u>Federal tax deduction</u>			
Section 143.171	<u>\$0</u>	<u>(\$477,461,000)</u>	<u>(\$477,461,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$477,562,385)</u>	<u>(\$477,605,246)</u>
Estimated Net FTE Change for the General Revenue Fund	0	4 FTE	4 FTE
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2014 (10 Mo.)	FY 2015	FY 2016
	<u>\$0</u>	<u>\$0</u>	<u>\$0</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 make all of an individual's federal income tax deductible for Missouri personal 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
Joint Committee on Administrative Rules
Office of Administration - Division of Budget and Planning
Department of Elementary and Secondary Education
Department of Revenue
University of Missouri - Economic and Policy Analysis Research Center



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March 27, 2013