

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4337-01  
Bill No.: SB 513  
Subject: Children and Minors; Tax Credits; Taxation and Revenue - Income  
Type: Original  
Date: December 26, 2013

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Bill Summary: This proposal creates an income tax credit based on the number of taxpayer's dependent children.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	\$0	(\$264,725,427)	(\$264,760,049)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>(\$264,725,427)</b>	<b>(\$264,760,049)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 7 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
General Revenue	0 FTE	2 FTE	2 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>0 FTE</b>	<b>2 FTE</b>	<b>2 FTE</b>

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).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### § 135.093 Tax credit for dependent child

This section creates a tax credit program beginning January 1, 2015, which allows eligible taxpayers a credit against taxes due under chapter 143 equal to \$400 per qualifying child. Single filers with adjusted gross income less than \$46,100 and married filing combine filers with adjusted gross income less than \$92,200 are eligible to receive the credit. The credit is nontransferable and cannot be refunded nor can it be carried forward or back in any tax year. The Department of Revenue is to create rules for implementation of these provisions.

Officials at the **Department of Revenue (DOR)** assume that for calendar year 2011, there were 1.36 million qualified children claimed on Missouri individual income tax returns by eligible taxpayers. Because this tax credit is only allowed up to the amount of tax liability for each filer and is non-refundable, not every taxpayer may receive the full credit amount of \$400. Therefore, the Department estimates a reduction to state revenues of up to \$346.7 million per year.

DOR assumes the Personal Tax Division will require form changes and programming changes to MINITS. This cost is estimated at \$9,173 for 336 FTE hours. Additionally, this proposal will require two Temporary Tax Employees for returns keyed, one Revenue Processing Technician I for every 2,400 pieces of correspondence and one Revenue Processing Technician I for every 19,000 errors worked.

The Collections & Tax Assistance Division will receive additional customer contacts about the credit and adjustment notices. The section requires two Tax Collection Technicians I for contacts to the delinquent and non-delinquent tax lines and one Revenue Processing Technician I for contacts at the field offices.

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

**Oversight** assumes DOR's Personal Tax Division and the Collections and Tax Assistance Division could absorb this tax credit with the addition of one Revenue Processing Technician I for each Division. DOR already verifies whether a child is a dependent and this credit does not have an annual cap, therefore this credit should not require much additional work. Should DOR experience the number of additional errors and customer contracts to justify other FTE, they could seek that FTE through the appropriation process.

ASSUMPTION (continued)

**Oversight** has, for fiscal note purposes only, changed the starting salary for the Revenue Processing Technician I's 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** assumes this proposal begins with tax year January 1, 2015. The filing of the credits would be filed on tax forms beginning January 1, 2016; and therefore, DOR will only need FTE for six months of FY 2016. Oversight will show FTE costs for six months of FY 2016, and for all of FY 2017.

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume this proposal would not have a fiscal impact on BAP. Department of Revenue reports there are an estimated 1.35 million qualifying dependent children claimed on Missouri tax forms. At \$400 each, this could mean \$540 million in tax credits, and a corresponding reduction in General and Total State Revenue. BAP defers to Department of Revenue for a more precise impact.

Officials at the **University of Missouri's Economic & Policy Analysis Research Center** assume this proposal could create an income tax credit based on the number of taxpayer's dependent children contingent upon the level of the taxpayer's Missouri adjusted gross income. Specifically, for a taxpayer's whose filing status is either single, head of household, qualifying widow(er), or married filing separately and whose Missouri adjusted gross income is equal to or less than \$46,100 or for taxpayer's whose filing status is married filing combined and whose Missouri adjusted gross income is equal to or less than \$92,200 this bill would allow a non-refundable credit of \$400 per qualifying child.

Using the Net Tax Due from the latest 2012 individual income tax data as our baseline, we find it is equal to \$5,109.439 million. When we allow the aforementioned child credit, we find that Net Tax Due is reduced to \$4,844.762 million. This translates to a decrease in Net General Revenue of \$264.677 million.

Further analysis of our income tax data shows that 700,460 taxpayers qualify for this child tax credit with an approximate aggregate amount of \$400 tax credits of \$489.637 million (the difference between the General Tax Credits Amount). This accounts for approximately 1.224 million qualifying children. If enacted we estimate the impact of this bill would decrease Net General Revenue by \$264.677 million.

ASSUMPTION (continued)

Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

Officials from the **Office of the Secretary of State (SOS)** state 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 SOS 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, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS reserves 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.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

<u>FISCAL IMPACT - State Government</u>	FY 2015	FY 2016 (6 Mo.)	FY 2017
<b>GENERAL REVENUE</b>			
<u>Revenue Reduction</u> - income tax credit for dependent children	\$0	(\$264,677,000)	(\$264,677,000)
<u>Costs</u> - Department of Revenue			
Personal Service	\$0	(\$26,103)	(\$52,727)
Fringe Benefits	\$0	(\$13,314)	(\$26,893)
Equipment and Expenses	<u>\$0</u>	<u>(\$9,010)</u>	<u>(\$3,429)</u>
<u>Total Costs</u> - DOR	<u>\$0</u>	<u>(\$48,427)</u>	<u>(\$83,049)</u>
FTE Change - DOR	0 FTE	2 FTE	2 FTE
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>			
	<b><u>\$0</u></b>	<b><u>(\$264,725,427)</u></b>	<b><u>(\$264,760,049)</u></b>
Estimated Net FTE Change on General Revenue	0 FTE	2 FTE	2 FTE

<u>FISCAL IMPACT - Local Government</u>	FY 2015	FY 2016 (6 Mo.)	FY 2017
	<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.

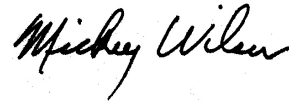
FISCAL DESCRIPTION

This act creates an income tax credit of \$400 per child for individuals able to claim a dependency deduction for a qualifying child on their federal income taxes. Individuals with a Missouri adjusted gross income over \$46,100 and married couples with a combined Missouri adjusted gross income over \$92,200 are ineligible for the credit. The tax credit is non-refundable, non-transferable, and cannot be carried back or forward.

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

Department of Revenue  
Joint Committee on Administrative Rules  
Office of Administration  
    Division of Budget and Planning  
Office of the Secretary of State  
University of Missouri's Economic & Policy Analysis Research Center



Mickey Wilson, CPA  
Director  
December 26, 2013

Ross Strobe  
Assistant Director  
December 26, 2013