

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0302-03
Bill No.: SB 15
Subject: Revenue Department; Taxation and Revenue - General; Taxation and Revenue - Sales and Use
Type: Original
Date: December 24, 2014

Bill Summary: This proposal would eliminate the Office of Taxpayers' Ombudsman, create the Office of Taxpayer Advocate, amend the Missouri Taxpayer's Bill of Rights to include a right to fair and consistent application of Missouri tax laws, create a Study Commission on State Tax Policy, and require the Department of Revenue to promulgate by rule certain changes in the interpretation of sales tax law.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	\$0	(\$807,806)	(\$752,419)
Total Estimated Net Effect on General Revenue	\$0	(\$807,806)	(\$752,419)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on FTE	0	0	0

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 37.650 Office of Taxpayer Advocate

Officials from the **Office of the Governor** noted this proposal would create an Office of Taxpayer Advocate, with the Taxpayer Advocate to be appointed by the Governor. Those officials assume there would be no added cost to the Governor's Office as a result of this measure; however, if additional duties are placed on the office related to appointments in other legislation, there may be a need for additional staff resources in future years.

Oversight assumes this proposal could be implemented with existing staff in the Office of the Governor.

Officials from the **Office of Administration (OA)** noted the provision would create the Office of Taxpayer Advocate who would report directly to the OA Commissioner.

Taxpayer Advocate

OA officials assume the Taxpayer Advocate would be paid \$102,930 per year, the annual salary of an AHC Commissioner, and the Taxpayer Advocate would require training every year with a first-year cost of \$1,208 based on information from the Association of Talent Development.

ASSUMPTION (continued)

OA officials assume ten additional employees would be needed to fully staff the Office of Taxpayer Advocate. This is based on number of employees (FTE) currently budgeted for the Administrative Hearing Commission (16.5 FTE) and the Office of Prosecution Services (14 FTE). Their salaries would be as follows.

1 Executive I:	\$34,596
1 Legal Counsel:	\$56,600
4 Accountant II:	\$43,056 each
4 Taxpayer Service Representatives II:	\$34,020 each

OA officials assume an Accountant and Taxpayer Service Representative would be needed for each tax type (individual income, corporate income, sales, and other) to effectively communicate with taxpayers regarding tax questions and issues.

Staff Training

OA officials assume the Department of Revenue would provide training each year on Missouri tax law with an estimated first-year cost of \$12,080 for 10 staff.

Expense and equipment

OA officials assume the Office of Taxpayer Advocate would have expense and Equipment costs of \$8,313 per additional employee; the total estimated first year cost would be $(\$8,313 \times 11) = \$91,446$.

Office rent

OA officials assume there would not be adequate space in the Truman Building to accommodate 11 additional employees; therefore, 3,000 square feet of rental space would be needed for an office in Jefferson City. Estimated cost would be $(3,000 \text{ square feet} \times \$14 \text{ rental rate}) = \$42,000$ and $(3,000 \text{ square feet} \times \$3.50 \text{ janitorial and utilities}) = \$10,500$. The total first-year cost would be $(\$42,000 + \$10,500) = \$52,500$.

In summary, the OA response for this provision included costs for employee salaries, benefits, and expense and equipment of \$790,446 for FY 2016, \$841,455 for FY 2017, and \$850,825 for FY 2018.

ASSUMPTION (continued)

Oversight considers the OA estimate of staffing requirements the best available estimate of the cost to implement this proposal and will use the OA estimates as adjusted. 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 estimate of equipment and expense in accordance with OA budget guidelines.

Oversight also notes the proposal could become effective in August, 2015 (FY 2016) but costs for the program would first be included in the FY 2017 budget; Oversight will include OA costs for this provision for FY 2017 and FY 2018 in this fiscal note.

Section 136.380 Taxpayer Ombudsman

OA officials noted this provision would eliminate the Office of Taxpayer's Ombudsman in the Department of Revenue.

DOR officials stated the Ombudsman currently has additional responsibilities for the Department as well as serving as the ombudsman, and the elimination of the ombudsman responsibilities would not result in savings to their organization.

Oversight assumes there would be minimal savings to DOR from eliminating the position, beginning in August 2015 (FY 2016) and will not include those savings in this fiscal note.

Section 136.450 Study Commission on State Tax Policy

This provision would create a Commission on State Tax policy. The commission would be composed of the sitting members of the Joint Committee on Tax Policy, the Director of the Department of Revenue, and the State Budget Director, as well as members of the public who have expertise in the field of taxation.

OA officials noted their organization may be required to provide staff support to the commission, and members who are not state employees would be reimbursed for any expenses incurred in serving on the commission. OA officials also assumed seven non-state employees would be reimbursed for their costs to attend 27 commission meetings.

ASSUMPTION (continued)

OA officials provided the following estimate of cost for the commission.

Lodging - (\$83 average cost x 7 members x 27 meetings) =	\$15,687
Meals - (Average \$30 per day x 7 members x 27 meetings) =	\$5,670
Mileage - (Average 240 miles round trip x 7 members x 27 meetings x \$0.37 per mile) =	<u>\$16,783</u>
Total	<u>\$38,140</u>

In summary, the OA response for this provision included costs for members travel, lodging, and meals of \$17,856 for FY 2016, \$21,963 for FY 2017, and \$22,511 for FY 2018.

Oversight notes this provision does not include a specific date for the commission to be activated; however, the proposal would require the commission to prepare a preliminary report for the Governor and General Assembly by December 31, 2016 (FY 2017) and a final report by December 31, 2017 (FY 2018). The commission would be inactive after January 1, 2018, and the provision would expire August 31, 2018.

Accordingly, Oversight will include costs for the commission in FY 2017 and FY 2018. If the OA estimated total costs are split evenly between FY 2017 and FY 2018, OA would make payments of $(\$38,140 / 2) = \$19,070$ per year.

Bill as a whole responses

Officials from the **Office of the Lieutenant Governor**, the **Office of the State Treasurer**, and the **Department of Revenue** assume this proposal would have no fiscal impact on their organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE FUND			
<u>Cost</u> - Office of Administration			
Office of Taxpayer Advocate			
Section 37.650			
Personal service	\$0	(\$467,251)	(\$471,923)
Benefits	\$0	(\$238,321)	(\$240,705)
Expense and equipment	<u>\$0</u>	<u>(\$83,164)</u>	<u>(\$20,721)</u>
Total cost	\$0	(\$788,736)	(\$733,349)
FTE change - Office of Administration		11 FTE	11 FTE
 <u>Cost</u> - Office of Administration			
Study Commission on State Tax Policy			
Section 136.450	<u>\$0</u>	<u>(\$19,070)</u>	<u>(\$19,070)</u>
 ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	 <u>\$0</u>	 <u>(\$807,806)</u>	 <u>(\$752,419)</u>
 Estimated Net FTE Change for the General Revenue Fund		 11 FTE	 11 FTE
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2016 (10 Mo.)	FY 2017	FY 2018
	<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 proposal would eliminate the current Office of Taxpayers' Ombudsman, and would create the Office of Taxpayer Advocate, to be appointed by the Governor with the advice and consent of the Senate. The Taxpayer Advocate would have the authority to work with taxpayers regarding tax issues and would have access to information held by any state agency regarding the taxpayer's tax issue. The office would be required to report on a regular basis to the Governor and the General Assembly on the operations of the office and any suggested legislation for improving Missouri's tax laws.

The Missouri Taxpayer's Bill of Rights would be amended to include a right to fair and consistent application of Missouri tax laws.

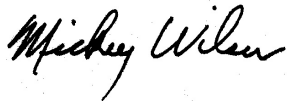
The proposal would also create the Study Commission on State Tax Policy composed of the sitting members of the Joint Committee on Tax Policy, the Director of the Department of Revenue and the State Budget Director, as well as members of the public who have expertise in the field of taxation. The commission would be tasked with examining the state of Missouri's tax system to identify strengths and weaknesses, and to provide recommendations for improvement. The commission would be required to cease its activities by January 1, 2018.

Finally, this proposal would require the Department of Revenue to promulgate by rule any change in the interpretation of sales tax laws that would modify which items of personal property or services are taxable. The new interpretation could not take effect until the rule is promulgated.

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 Governor
Office of the Lieutenant Governor
Office of the State Treasurer
Office of Administration
Department of Revenue



Mickey Wilson, CPA
Director
December 24, 2014

Ross Strobe
Assistant Director
December 24, 2014