

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0450-01
Bill No.: SB 25
Subject: Children and Minors; Tax Credits; Taxation and Revenue-Income
Type: Original
Date: January 16, 2015

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	\$0	(\$136,311,869)	(\$135,339,728)
Total Estimated Net Effect on General Revenue	\$0	(\$136,311,869)	(\$135,339,728)

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

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

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
General Revenue	0	2 FTE	2 FTE
Total Estimated Net Effect on FTE	0	2 FTE	2 FTE

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

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume this proposal creates a non-refundable child dependent credit based on a taxpayer's income. Based on numbers provided by the DOR there are 1.12 million qualified children claimed on Missouri individual income tax returns by eligible taxpayers. Therefore, B&P estimates a reduction to state revenues of up to \$169 million per year if all eligible taxpayers claim the deduction.

Officials at the **Department of Revenue (DOR)** assume beginning January 1, 2016, this proposal allows a resident taxpayer a credit against chapter 143 taxes for each child that qualifies and is entitled to a dependency exemption for federal tax purposes. For calendar year 2012 there were 1.12 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. Therefore, DOR estimates a reduction to state revenues of up to \$169 million per year if the deduction is claimed by all eligible taxpayers.

DOR assumes the Personal Tax division will require form changes and programming changes to MINITS. This cost is estimated at \$25,191 for 336 FTE hours. Additionally, this proposal will require two (2) Temporary Tax Employees for keying returns and two (2) Revenue Processing Technicians I for correspondence and error correction.

DOR assumes the Collections & Tax Assistance division will receive additional customer contacts with questions regarding the tax credit and notice of adjustments. This will require two (2) Tax Collection Technicians the delinquent and non-delinquent tax line with CARES equipment.

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 additional FTE, they

ASSUMPTION (continued)

could seek that FTE through the appropriation process.

Oversight has, for fiscal note purposes only, changed the starting salary for the Revenue Processing Technicians I 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, 2016. The filing of the credits would be filed on tax forms beginning January 1, 2017; and therefore, DOR will only need FTE for six months of FY 2017. Oversight will show FTE costs for six months of FY 2017, and for all of FY 2018.

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.

Officials at the **University of Missouri's Economic and Policy Analysis Research Center (EPARC)** assume if enacted, this proposal would 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, a \$300 tax credit per qualifying child will be available for single and married filing separately filers who earn a Missouri adjusted gross income of \$20,000 or less, for head of household and qualifying widow(er) filers who earn a Missouri adjusted gross income of \$35,000 or less, and for married filing combined filers who earn a combined Missouri adjusted gross income of \$40,000 or less. A \$200 tax credit per qualifying child will be available for single and married filing separately filers who earn a Missouri adjusted gross income more

ASSUMPTION (continued)

than \$20,000 but not more than \$35,000, for head of household and qualifying widow(er) filers who earn a Missouri adjusted gross income more than \$35,000 but not more than \$70,000, and for married filing combined filers who earn a Missouri adjusted gross income more than \$40,000 but not more than \$70,000. Using the Net Tax Due from the latest 2013 individual income tax data as our baseline (Table 1), EPARC finds it is equal to \$5,124.717 million. When EPARC allows the aforementioned child credit we find that Net Tax Due is reduced to \$4,988.459 million. This translates to a decrease in Net General Revenue of \$136,258,000 million.

Further analysis of the income tax data shows that 623,344 taxpayers qualify for this child tax credit with an approximate aggregate amount of \$285,051,000 million. This accounts for approximately 1.1 million qualifying children. Had this proposal allowed this credit to be refundable, EPARC would have seen an impact on net general revenue of this much higher aggregate.

Therefore, if enacted, EPARC estimates the impact of this bill would decrease Net General Revenue by \$136,258,000.

For fiscal note purposes, **Oversight** will show EPARC's estimated fiscal impact.

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

<u>FISCAL IMPACT - State Government</u>	FY 2016	FY 2017 (6 Mo.)	FY 2018
GENERAL REVENUE			
<u>Revenue Reduction</u> - income tax credit for dependent children	\$0	(\$136,258,000)	(\$136,258,000)
<u>Costs</u> - Department of Revenue			
Personal Service	\$0	(\$25,884)	(\$52,286)
Fringe Benefits	\$0	(\$13,461)	(\$27,191)
Equipment and Expenses	<u>\$0</u>	<u>(\$14,524)</u>	<u>(\$2,251)</u>
<u>Total Costs</u> - DOR	\$0	(\$53,869)	(\$81,728)
FTE Change - DOR	0 FTE	2 FTE	2 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE			
	<u>\$0</u>	<u>(\$136,311,869)</u>	<u>(\$136,339,728)</u>
Estimated Net FTE Change on General Revenue	0 FTE	2 FTE	2 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 act creates an income tax credit for individuals able to claim a dependency deduction for a qualifying child on their federal income taxes. The amount of the tax credit depends on the taxpayer's filing status and Missouri adjusted gross income. The maximum amount is \$300 per child. The tax credit is nonrefundable, nontransferable, 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.

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SOURCES OF INFORMATION

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



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