

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1272-01
Bill No.: SB 350
Subject: Revenue, Department of; Taxation and Revenue - Income
Type: Original
Date: March 10, 2015

Bill Summary: This proposal would require the Department of Revenue to pay interest on refunds not paid after 45 days from the date the return was filed, and would require the Department of Revenue to deposit receipts within two business days.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|------------------------------------------------------|------------------------------|------------------------------|------------------------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| General Revenue | (Less than \$203,444) | (Less than \$105,013) | (Less than \$105,499) |
| Total Estimated Net Effect on General Revenue | (Less than \$203,444) | (Less than \$105,013) | (Less than \$105,499) |

| 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 8 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 | 1 FTE | 1 FTE | 1 FTE |
| | | | |
| Total Estimated Net Effect on FTE | 1 FTE | 1 FTE | 1 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 from the **Department of Revenue (DOR)** assume this proposal would have a negative fiscal impact on the General Revenue Fund, as discussed in detail below.

Section 32.069, RSMo. - Interest on Refunds:

DOR officials noted the legislation would require the payment of interest on any overpayment of taxes if not refunded within 45 days. If the overpayment was not refunded within 45 days, interest would accrue from the date the taxpayer filed the return or the date the taxpayer filed for a credit or refund.

Section 143.811, RSMo. - Time Limit for Refunds:

DOR officials noted the legislation would reduce the time allowed to refund tax overpayments without paying interest from 90 to 45 days. Interest on unpaid refunds would accrue from the date the Department received the return.

Fiscal impact

Based on approximately 318,000 overpayments issued during calendar year 2014 that took longer than 45 days to issue, DOR officials estimated that interest in the amount of \$60,000 would have been paid if the 45 day limit had been in place. DOR officials also stated the current interest rate on overpayments is 0.6 percent; because that rate may vary, the potential impact could increase.

Oversight assumes the additional interest cost would be less than the DOR estimate of \$60,000. Oversight notes that DOR officials did not indicate a fiscal impact for the requirement to deposit all receipts within two days. Oversight also assumes the prompt deposit requirement would result in additional interest revenue for the state but we do not have any way to estimate that additional impact.

ASSUMPTION (continued)

Administrative Impact

DOR officials assumed the Department would require programming changes to various systems in order to implement the legislation. DOR officials assumed Personal Tax would require an additional ten (10) Revenue Processing Technicians I (Range 10, Step L) and Collections and Tax Assistance (CATA) would require two additional Tax Collection Technicians I (Range 10, Step L), one for every additional 15,000 contacts annually on the delinquent tax line and one for every additional 15,000 on the non-delinquent tax line. DOR officials assumed each technician would require CARES equipment and license.

Section 143.605, RSMo. - Deposit Processing

DOR officials noted this provision would require the Department to deposit payments received within two business days of receipt and stated the current average time to deposit is 1.68 days for Personal Tax payments and 1.04 days for Business Tax payments.

Administrative Impact

DOR officials assumed Personal Tax would require an additional 75 temporary employees during peak processing times to ensure that all payments are deposited within two business days of receipt, and Business Tax Processing would require three additional Revenue Processing Technicians I (Range 10, Step L) and one (1) Revenue Processing Technician III (Range 16, Step E) on a temporary basis at peak processing times to ensure all payments are deposited within two business days of receipt. DOR officials assumed the Department would also require four additional Transaction Management System (TMS) Licenses to process payments.

In summary, the DOR estimate of cost to implement the proposal including twelve additional full time employees, 2,400 hours per year for temporary tax employees, 1,088 hours of overtime per year for current full time employees, and the related benefits, equipment, and expense, was \$641,781 for FY 2016, \$615,992 for FY 2017, and \$621,759 for FY 2018.

ASSUMPTION (continued)

Oversight assumes these provisions would not result in any additional returns, receipts, refunds, or other transactions; rather, it would require more timely processing of returns, payments, and refunds by the Department of Revenue. No additional full time employees would appear to be required to process this information more promptly, and Oversight will include only the DOR cost estimate for overtime, temporary classified employees, and temporary tax employees in our estimate of fiscal impact for this proposal. Oversight notes this proposal would be effective beginning on August 28, 2015 (FY 2016) and assumes these costs would apply to the tax processing season beginning in January 2016 (FY 2016).

Oversight also 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 new 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. Oversight assumes a limited number of additional employees could be accommodated in existing office space. Finally, because the temporary classified employee would be benefit eligible, Oversight will indicate one additional FTE for this proposal.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$75,087 based on 1001.16 hours of programming to make changes to DOR computer systems.

Oversight assumes the programming would be limited to those changes necessary to process and pay interest according to the requirements in this proposal, and will include the DOR IT cost in our estimate of fiscal impact.

ASSUMPTION (continued)

Officials from the **Office of Administration, Division of Budget and Planning (BAP)**, assume this proposal would require DOR to remit refunds within 45 days. If the deadline is not met, interest would be paid from the date DOR received the return. In addition, DOR would be required to deposit all payments within 2 business days.

BAP officials noted the amount paid out in interest would increase as the time frame for requiring interest payments is reduced, and deferred to DOR for an estimated amount. BAP officials assume the proposal would have no impact to Total State Revenue or the calculation required under Section 18(e) of the state constitution.

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 this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize many such bills may be passed by the General Assembly in a given year and collectively the costs may be greater than 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 **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization.

| <u>FISCAL IMPACT - State Government</u> | FY 2016 (10 Mo.) | FY 2017 | FY 2018 |
|----------------------------------------------------------------------|---------------------------------------------|---------------------------------------------|---------------------------------------------|
| GENERAL REVENUE FUND | | | |
| <u>Additional revenue</u> - Interest from prompt deposit requirement | Unknown | Unknown | Unknown |
| <u>Cost</u> - DOR | | | |
| Salaries | (\$33,523) | (\$33,858) | (\$34,197) |
| Benefits | (\$8,629) | (\$8,715) | (\$8,802) |
| Equipment and expense | (\$26,205) | (\$2,440) | (\$2,500) |
| IT cost | <u>(\$75,087)</u> | <u>\$0</u> | <u>\$0</u> |
| | (\$143,444) | (\$45,013) | (\$45,499) |
| FTE change - DOR | 1 FTE | 1 FTE | 1 FTE |
| <u>Cost</u> - Interest on Refunds | (Less than <u>\$60,000</u>) | (Less than <u>\$60,000</u>) | (Less than <u>\$60,000</u>) |
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | (Less than <u>\$203,444</u>) | (Less than <u>\$105,013</u>) | (Less than <u>\$105,499</u>) |
| Estimated Net FTE Effect on General Revenue Fund | 1 FTE | 1 FTE | 1 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

This proposal could have an impact to small businesses which have a refund that is not paid within 45 days.

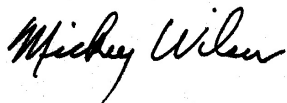
FISCAL DESCRIPTION

This proposal would require the Department of Revenue to pay interest on refunds not paid after 45 days from the date the return was filed, and would require the Department of Revenue to deposit receipts within two business days.

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 Revenue



Mickey Wilson, CPA
Director
March 10, 2015

Ross Strobe
Assistant Director
March 10, 2015