

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1844-03
Bill No.: SCS for SB 374
Subject: Agriculture and Animals; Emergencies; Taxation and Revenue - Income
Type: Original
Date: April 27, 2015

Bill Summary: This proposal would create an income tax exemption for payments received from specific programs that compensate agricultural producers for losses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	(Could exceed \$1,249,827)	(Could exceed \$606,000)	(Could exceed \$606,000)
Total Estimated Net Effect on General Revenue	(Could exceed \$1,249,827)	(Could exceed \$606,000)	(Could exceed \$606,000)

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 6 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
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

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would reduce Total State Revenues (TSR) by \$4.6 million and would impact the calculation required under Article X, Section 18(e) of the state constitution.

BAP officials noted this proposal would allow a taxpayer to deduct from Missouri adjusted gross income, any payments from certain programs that provide compensation to agricultural producers who have suffered losses due to a disaster or emergency, and used data provided by the United States Department of Agriculture (USDA) to estimate this proposal would exempt as much as \$76.4 million in income from tax.

Since deductions do not reduce taxes on a dollar for dollar basis, BAP officials assume this exemption would reduce TSR by $(\$76.4 \text{ million} \times 6\%) = \$4.6 \text{ million (rounded)}$. The proposal would allow the deduction for 2014; therefore, the impact in fiscal year 2016 could be as much as \$9.2 million. The annual revenue reduction could also vary in the future due to the impact of SB 509 (2014).

Oversight notes the BAP estimate is based on an assumption that all such payments would be subject to the maximum personal income tax rate of 6% for FY 2016 and FY 2017, and a potentially reduced rate for FY 2018. Oversight also notes the reduced rate for 2017 returns filed in FY 2018 is contingent on net general revenue collections exceeding a net general revenue collections threshold which may or may not occur. Finally, some of the payments may be received by individuals who would be taxed at a lower rate due to total taxable income less than \$9,000.

Officials from the **Department of Revenue (DOR)** noted the proposal would, effective January 1, 2014, allow a subtraction from the federal adjusted gross income of the amount of income an agricultural producer receives to compensate for losses because of disaster or emergency.

DOR officials assumed Personal Tax would require programming and form changes, and two additional Revenue Processing Technicians I for contacts on the delinquent and non-delinquent tax lines.

ASSUMPTION (continued)

DOR officials provided an estimate of the administrative cost to implement the proposal including two additional employees; the total including additional employees, benefits, equipment, and expense, was \$81,681 for FY 2016, \$84,086 for FY 2017, and \$84,960 for FY 2017.

Oversight notes this proposal would change a limited number of computations on income tax returns and would not be expected to have a significant impact on the number of returns filed. Oversight notes a significantly high percentage of income tax returns are prepared online, electronically, or by paid preparers, and assumes there would not be a significant number of additional errors resulting from the changes in this proposal. Oversight assumes existing DOR staffing would be adequate to implement this proposal. If unanticipated additional costs are incurred or if multiple proposals are implemented that increase DOR costs or the workload for DOR employees, resources could be requested through the budget process.

DOR officials also provided an estimate of the IT cost to implement the proposal of \$37,827 based on 504 hours of programming at the current state contract rate of \$75 per hour to make changes to DOR systems.

Oversight will include the DOR estimate of the IT cost implement the proposal in this fiscal note.

Officials from **Office of the Secretary of State**, the **Joint Committee on Administrative Rules** and the **Department of Agriculture** assume this proposal would not have a fiscal impact to their organizations.

Oversight contacted the federal **Department of Agriculture (USDA)** office in Columbia, Missouri, regarding the federal emergency program payments, and we were informed the largest of the programs was most recently in effect for federal program years 2008 through 2011. The amounts reported on the USDA website were for 2013 and included the final payments for the 2011 federal program year. There were no payments for this program in 2014 or 2015 since the program is not currently active.

ASSUMPTION (continued)

USDA officials told us the remaining programs are active and currently funded. We were also advised that the amounts authorized for these programs can be changed at any time, and that applications for aid are not accepted until funding is authorized for the program. Therefore, **Oversight** is not able to estimate any potential impact for agricultural losses that have been incurred but not reimbursed under the federal emergency programs.

For fiscal note purposes, **Oversight** will estimate the impact of this proposal based on those programs that are currently in effect and funded. Payments in those programs were approximately \$10.1 million per year, and the estimated revenue reduction for the proposal would be $(\$10,100,000 \times 6\%) = \$606,000$. If funding is restored for an inactive program, or if new programs are enacted, the fiscal impact would be greater.

Finally, because the proposal would be effective for years beginning on or after January 1, 2014, the fiscal impact for FY 2016 could be twice the calculated annual impact due to tax returns for FY 2015 and amended returns for 2014 which would be filed in FY 2016.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE FUND			
<u>Cost - DOR</u>			
Computer programming	(\$37,827)	\$0	\$0
<u>Revenue reduction</u>	(Could exceed	(Could exceed	(Could exceed
Tax exemption	<u>\$1,212,000)</u>	<u>\$606,000)</u>	<u>\$606,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(Could exceed <u>\$1,249,827)</u>	(Could exceed <u>\$606,000)</u>	(Could exceed <u>\$606,000)</u>
<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 would have a direct fiscal impact on small businesses involved in agriculture which receive payments that qualify for the exemption.

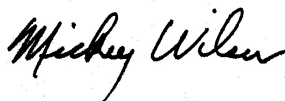
FISCAL DESCRIPTION

This proposal would provide an income tax exemption for payments in all tax years beginning on or after January 1, 2014 for income received as payment from certain programs which compensate agricultural producers who have suffered a loss as a result of a disaster, emergency, or decline in market prices or values.

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 Agriculture
Department of Revenue



Mickey Wilson, CPA
Director
April 27, 2015

Ross Strobe
Assistant Director
April 27, 2015