

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4595-03
Bill No.: SB 1018
Subject: Tax Credits; Taxation and Revenue - Income
Type: Original
Date: March 2, 2016

Bill Summary: This proposal authorizes an earned income tax credit.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(\$56,699,613)	(\$56,637,000)	(\$56,637,000)
Total Estimated Net Effect on General Revenue	(\$56,699,613)	(\$56,637,000)	(\$56,637,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
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 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
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 2017	FY 2018	FY 2019
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Oversight was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

Officials from the **Department of Revenue (DOR)** assumed this proposal creates the Missouri Earned Income Tax Credit Act. Beginning January 1, 2016, qualifying individuals receive a non-refundable credit of 20 percent of the allowable federal earned income tax credit against taxes due under Chapter 143, RSMo.

In 2013, 470,374 Missouri taxpayers claimed federal earned income credits totaling \$1,120,745,775. Using these amounts and the total tax liability for those taxpayers, DOR determined that if each taxpayer receives a non-refundable credit equal to 20 percent of the federal credit, the total reduction in tax would be \$60.4 million in the first year the credit is authorized.

The proposal requires DOR to prepare an annual statistical report regarding the tax credits issued. The proposal also requires DOR to contract with one or more non-profit groups to provide notice of the credit to eligible taxpayers.

Oversight assumes DOR can accomplish the requirement to contract with one or more non-profit groups to provide notice without incurring costs.

Administrative Impact

DOR officials assume the Personal Tax section would require four (4) Temporary Tax Employees, (4) Revenue Processing Technicians I, and one (1) Management Analyst Specialist II.

DOR officials assume the Collections and Tax Assistance section would require two (2) Tax Collections Technicians I with both requiring CARES phone systems.

ASSUMPTION (continued)

The **DOR** estimate of administrative cost for this proposal including four additional temporary employees and seven additional full time employees with related benefits, equipment, and expense totaled \$360,595 for FY 2017, \$366,495 for FY 2018, and \$369,690 for FY 2019.

Oversight notes this proposal would implement a state tax EITC program based on and dependent on the federal EITC program. Oversight assumes this proposal would change a limited number of computations on individual income tax returns and assumes the proposal would not have a significant impact on the number of returns filed. Oversight also notes a 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 therefore 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.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$62,613 based on 835 hours of programming to make changes to DOR systems.

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

Officials at the **Office of Administration's Division of Budget and Planning (B&P)** assume this proposal provides a non-refundable Earned Income Tax Credit to resident taxpayers in an amount equal to 20% of the federal EITC. This proposal also requires Department of Revenue (DOR) to prepare an annual report detailing statistics about the usage of this tax credit. Using tax year 2013 data, the most recent year available, B&P estimates that a non-refundable earned income tax credit will reduce Total State Revenue and General Revenue by \$60.4 million annually.

Officials at the **University of Missouri's Economic & Policy Analysis Research Center (EPARC)** assume they used the individual income tax for Missouri 2014 as the baseline year to determine a net tax due of \$5,563.753 million. If the earned income credit had been implemented at that time, it would have reduced the net tax due to \$5,507.116 million.

ASSUMPTION (continued)

The increase seen in the General Tax Credits of \$224.056 million is the complete measure of 20% of Missouri filers' Federal Earned Income Credit. Many filers are able to reduce their tax burden to zero before using their entire credit. Because this credit does not allow the remainder to be refunded to the filer, our impact estimation is only concerned with reduction in Net Tax Due.

If enacted, this would reduce Net General Revenue by \$56.637 million.

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

Oversight for fiscal note purposes only, will use the estimate provided by EPARC.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE FUND			
<u>Cost</u>			
DOR programming	(\$62,613)	\$0	\$0
<u>Revenue reduction</u>			
Earned income tax credit	<u>(\$56,637,000)</u>	<u>(\$56,637,000)</u>	<u>(\$56,637,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$56,699,613)</u>	<u>(\$56,637,000)</u>	<u>(\$56,637,000)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
	<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.

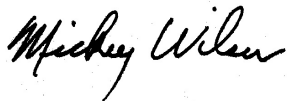
FISCAL DESCRIPTION

This act authorizes an earned income tax credit for individuals that qualify for a federal earned income tax credit. The tax credit will be in an amount equal to 20% of the federal tax credit. The tax credit will be non-refundable. Taxpayers may be eligible for the tax credit beginning January 1, 2016. No tax credits will be authorized after 2022. The Department of Revenue is required to prepare a report on issuances of the tax credit. The Department shall also contract with a nonprofit group to provide notice of the tax credit to eligible taxpayers.

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
University of Missouri
Economic & Policy Analysis Research Center



Mickey Wilson, CPA
Director
March 2, 2016

Ross Strope
Assistant Director
March 2, 2016