

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4738-01
Bill No.: SB 641 with HCA 1
Subject: Agriculture and Animals; Emergencies; Taxation and Revenue - Income
Type: Original
Date: May 2, 2016

Bill Summary: This proposal would provide an income tax exemption for payments from agricultural disaster programs.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(\$37,584)	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue	(\$37,584)	(Unknown)	(Unknown)

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 notes that prior to HCA 1, the effective date for the proposal was for tax years beginning on or after January 1, 2014. HCA 1 moves the effective date for the proposal to tax years beginning on or after January 1, 2017. Agency responses shown below reflected estimated impact based upon the January 1, 2014 effective date. As a result of the date change, **Oversight** will show \$0 revenue reduction for FY 2017, but will show the DOR computer cost of \$32,584. **Oversight** will continue to show (Unknown) for FY 2018 and FY 2019.

In response to the Perfected version of the bill, officials from the **Office of Administration - Division of Budget and Planning (B&P)** assumed this proposal could reduce Total State Revenues (TSR) by as much as \$51.5 million and would impact the calculation required under Article X, Section 18(e) of the state constitution.

B&P officials noted this proposal is effective for all tax years beginning on or after January 1, 2014 and would allow a taxpayer to deduct from Missouri adjusted gross income, any payments from any program that provides compensation to agricultural producers who have suffered losses due to a disaster, emergency. B&P officials used data provided by the United States Department of Agriculture (USDA) to estimate this proposal would exempt as much as \$286.3 million in income since \$286.3 million was paid by federal programs to Missouri farmers and ranchers during FY 2014.

Since deductions do not reduce taxes on a dollar for dollar basis, BAP officials assume this exemption would reduce TSR by $(\$286,300,000 \times 6\%) = \17.2 million. The proposal would allow the deduction for tax years 2014 through 2016; therefore, the impact in fiscal year 2017 could be as much as \$51.5 million. The annual revenue reduction could also vary in the future due to the impact of SB 509 (2014).

Oversight notes the B&P estimate is based on an assumption that all such payments would be subject to the maximum personal income tax rate of 6% for FY 2017, and a potentially reduced rate for FY 2018 and FY 2019. 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 and in addition, 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.

Oversight notes the federal payments made by the USDA to Missouri farmers during federal FY 2014 (\$286.3 million) greatly exceeded the payments made by the USDA to Missouri farmers during federal FY 2013 (\$76.4 million). The increase was caused largely by the increase in the Livestock Forage Program. The large payments under the Livestock Forage Program were not repeated in federal FY 2015 and are not likely to be repeated in the near term.

ASSUMPTION (continued)

Oversight has given additional consideration to the fact that the United States Department of Agriculture (USDA) fiscal year runs from October 1 through September 30 and a portion of the Livestock Forage Program was paid out prior to the effective date of this proposal (January 1, 2014).

Due to the wide fluctuations in the payments over the immediate preceding years, it is difficult to project the future fiscal impact. **Oversight** will include an estimated revenue reduction in this fiscal note based in part on the B&P response; Oversight has used the historical record of USDA disaster payments made for the periods after January 1, 2014 to compute the fiscal note amount of up to \$12.1 million in FY 2017, which provides for 2014 and 2015 amended returns which would be filed in FY 2017. **Oversight** has no basis upon which to base future payments of agriculture disaster amounts, and will reflect a negative unknown amount for FY 2018 and FY 2019.

In response to the Perfected version of the bill, 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, emergency, or decline in market prices. The provisions in Subdivision (10) allow for the subtraction from the taxpayer's federal adjusted gross income to the extent the taxpayer included the payment in his or her federal adjusted gross income.

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.

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 2017, \$84,086 for FY 2018, and \$84,960 for FY 2019.

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.

ASSUMPTION (continued)

DOR officials also provided an estimate of the IT cost to implement the proposal of \$37,584 based on 50 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.

As previously noted, **Oversight** will continue to show the DOR computer cost, but due to the change in effective dates as a result of HCA 1, **Oversight** will show \$0 revenue reduction FY 2017, and an unknown revenue reduction FY 2018 and FY 2019.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE FUND			
<u>Cost - DOR</u>			
Computer programming	(\$37,584)	\$0	\$0
<u>Revenue reduction</u>			
Tax exemption	\$0	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$37,584)</u>	<u>(Unknown)</u>	<u>(Unknown)</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 businesses involved in agriculture.

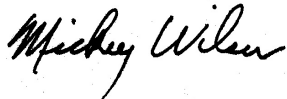
FISCAL DESCRIPTION

This proposal would provide an income tax exemption for payments in all tax years beginning on or after January 1, 2017, for income received as payment from any program which compensates 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

Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Agriculture
Office of the Secretary of State
Department of Revenue



Mickey Wilson, CPA
Director
May 2, 2016

Ross Strope
Assistant Director
May 2, 2016