COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4952-01
Bill No.: Perfected HB 1582
Subject: Taxation and Revenue - Income; Business and Commerce
Type: Original
Date: February 10, 2016

Bill Summary: This proposal would change the withholding tax filing requirements for certain small businesses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(Unknown)	$0	$0
Total Estimated Net Effect on General Revenue	**(Unknown)**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on Other 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 2017	FY 2018	FY 2019
Total Estimated Net Effect on All 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

Officials from the **Office of Administration - Division of Budget and Planning (B&P)** noted this proposal would increase the threshold for annual withholding filers from $20 to $100. Withholding taxes that would otherwise have been collected on a quarterly basis in April, July, and October would be delayed until January. This proposal would not impact state revenues in the aggregate, but could have a cash flow impact across fiscal years.

Assuming the bill is effective Aug. 28, 2016, quarterly payments due in October 2016 would instead be remitted in January 2017. This would have no cash effect overall for FY 2017, though timing of payments are different. However, quarterly payments due in April of 2017 would not arrive until January 2018. Therefore, revenue collections would be reduced in FY 2017, but the payments in FY 2018 would increase by similar amounts. Further, similar patterns would follow in subsequent years.

B&P officials noted there would be a very slight reduction in Total State Revenue and general revenue the first year by the amount of interest the state would have earned on the withholdings received before the end of the calendar year. B&P officials estimated the amount would be less than $20,000. BAP officials assume this proposal would not impact the calculation required under Section 18(e) of the state constitution.

B&P officials stated the Department of Revenue had reported about 3,500 businesses would be impacted by this proposal.

Officials from the **Department of Revenue (DOR)** noted this proposal would change current filing requirements for employee withholding tax. If an employer deducts and withholds less than $100 in each of the four preceding quarters, the employer would be allowed to file a withholding return for a calendar year at a time. DOR officials noted the department could increase the amount required for making an annual employer withholding payment and return to more than $100 or decrease such required amount; however, the decreased amount could not be less than $100.

Administrative impact

DOR officials assume the Department would need to make forms changes, and the Department and ITSD-DOR would need to make programming changes to various tax systems.

ASSUMPTION (continued)

Oversight notes DOR officials did not provide an administrative cost estimate for this proposal and assumes DOR could implement this proposal with existing resources.

Fiscal impact

DOR officials also assume this proposal would not reduce Total State Revenue (TSR), but would delay the collection of withholding taxes. DOR officials assume this legislation would impact approximately 3,500 businesses that could delay the remittance of their withholding taxes until January of the following year. These taxes would have otherwise been paid in April, July, and October. Assuming the state could earn a rate of interest of five percent; this could reduce total state revenue by $17,500 annually.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of $10,390 based on 80 hours of programming to make changes to DOR systems.

Oversight assumes OA - ITSD (DOR) is provided with core funding to handle a certain amount of computer programming activity each year. Oversight also assumes OA - ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA - ITSD (DOR) could request funding through the budget process.

ASSUMPTION (continued)

Oversight assumptions:

Fiscal impact - withholding tax

Oversight assumes this proposal would allow certain employers to delay filing and paying withholding taxes, which are currently due on a quarterly basis, until the following January 31. The amount of tax due and the overall amount of revenue for a tax year would not change; however, implementing the provisions could delay receipt of withholding taxes as explained below.

* Taxes withheld for the third calendar quarter ending September 30, 2016 are currently filed and paid by October 31, 2016 (FY 2017); the proposal would include those taxes in an annual filing due January 31, 2017 (FY 2017). Those taxes would be received in the same fiscal year as currently required, although filing and payment of those funds would be delayed three months. For fiscal note purposes there would be no impact from that delay.

* Taxes withheld for the fourth calendar quarter ended December 31, 2016 would be paid January 31, 2017 (FY 2017) as currently required.

* Taxes withheld for the first calendar quarter ending March 31, 2017 are currently required to be filed and paid by April 30, 2017 (FY 2017). The proposal would include those taxes in an annual filing due January 31, 2018 (FY 2018). That delay would be permanent, as each year's first quarter withholding taxes would be paid the following state fiscal year.

* Taxes withheld for the calendar quarters ending June 30, 20177 are currently required to be filed and paid by July 31, 2017, and taxes withheld for the quarter ending September 30, 2017 currently required to be filed and paid by October 31, 2017 (FY 2018) would be paid by January 31, 2018 (FY 2018). Those taxes would be paid in the same fiscal year as currently required but would be delayed six months and three months, respectively, as compared to current requirements.

ASSUMPTION (continued)

- * Based on the number of filers provided by the Department of Revenue, the amount of first calendar quarter withholding taxes delayed over the end of a state fiscal year could range from (3,500 filers x the current $20 threshold) = $70,000 to (3,500 filers x the new $100 threshold) = $350,000.

Oversight notes this proposal would allow but not require employers with less than $100 in quarterly withholding taxes to file and pay those taxes on an annual basis; the actual revenue reduction for FY 2017 would depend on the number of employers who would elect annual filing and payment. For fiscal note purposes, Oversight will indicate an unknown revenue reduction for FY 2017 due to first calendar quarter withholding taxes which would be remitted in January, 2018 (FY 2018) rather than April 2017 (FY 2017).

Fiscal impact - interest income

Oversight notes that implementing this proposal would lead to the annual deposit of an unknown amount of payroll taxes on January 1 rather than quarterly. Each year, the first quarter payroll taxes for smaller employers that would have been deposited on April 30 would be deposited 276 days later, the second quarter payroll taxes that would have been deposited July 31 would be deposited 184 days later, and the third quarter payroll taxes that would have been deposited October 31 would be deposited 92 days later. Similar delays would occur each year; there would not be any offset except for the potential reduction in workload due to a smaller number of payroll tax filings. Further, Oversight assumes many of the smaller employers would have elected electronic filing and there would be no DOR workload reduction for those employers. The Department of Revenue (DOR) estimated the proposal could result in a reduction in interest income of $17,500 per year due to these delayed payments.

Oversight has reviewed the DOR estimate of lost interest income and assumes it would be reasonable if the state of Missouri could earn a 5% return on invested funds. However, the Office of the State Treasurer has reported an earned interest rate of 0.56% for the first six months of FY2016. Therefore, the lost interest from the delayed deposit of smaller employers' withholding taxes could be ($17,500 / 5% x 0.56%) = $1,960 and more likely less than that, if less than 100% of eligible employers elect to file and pay withholding taxes on an annual basis.

Oversight considers the potential for lost interest to be minimal and will not include it in this fiscal note.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State (SOS)** stated in response to a previous version of this proposal that 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 that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that 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.

FISCAL IMPACT - State Government	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE FUND			
Additional revenue - Previous year withholding taxes paid Section 143.221	$0	Unknown	Unknown
Revenue reduction - Delayed filing and payment of withholding taxes Section 143.221	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**(Unknown)**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2017 (10 Mo.)	FY 2018	FY 2019
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This proposal would change the withholding tax filing requirements for certain small businesses.

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 Revenue
Office of the Secretary of State

Mickey Wilson, CPA
Director
February 10, 2016

Ross Strope
Assistant Director
February 10, 2016

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