

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5096-01
Bill No.: HB 2030
Subject: Tax Incentives; Securities; Taxation and Revenue - General; Retirement Systems and Benefits - General
Type: Original
Date: January 25, 2016

Bill Summary: This proposal authorizes a tax deduction equal to fifty percent of the capital gain resulting from the sale of employer securities to certain Missouri stock ownership plans.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(\$103,472)	(Up to \$10,300,000)	(Up to \$10,300,000)
Total Estimated Net Effect on General Revenue	(\$103,472)	(Up to \$10,300,000)	(Up to \$10,300,000)

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

Officials from the **Missouri Department of Revenue (DOR)** stated they are unable to determine the exact amount of capital gains that may qualify for the deduction provided in this proposal but have assumed 1% of net capital gains reported by both individual and corporate income taxpayers will qualify. DOR states that based upon the 1% assumption, individual income tax revenue will be reduced by approximately \$1,100,000 annually and corporate income tax revenue will be reduced by approximately \$9,200,000.

DOR noted the proposal defines taxpayers to include corporations, but as written, the proposal provides for a deduction from taxpayer's Missouri adjusted gross income which is a term that does not apply to corporations. DOR assumes the state impact should include the reduction in corporate income tax.

DOR assumes the proposal will require two (2) Revenue Processing Technicians I (Range 10, Step L) for error corrections and correspondence in processing individual income tax returns and three (3) Revenue Processing Technicians I (Range 10, Step L) for error correction, additional correspondence and data entry in processing corporate income tax returns. In addition, DOR assumes this proposal will require two (2) Tax Collection Technicians I (Range 10, Step L). Each technician requires CARES equipment and license. The assumed cost for the seven (7) technicians is \$305,955 FY 2017, \$318,474 FY 2018 and \$321,071 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 cost 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 \$103,472 based on 503 hours of programming at the current state contract rate of \$130 per hour for Integrated System Changes and \$75 per hour for IT Contractor hours to make changes to DOR systems.

ASSUMPTION (continued)

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

Officials from the **Office of Administration - Budget and Planning (B&P)** stated the proposal defines taxpayer to include corporations, but only allows for a deduction from a taxpayer's Federal adjusted gross income, and further states corporations have taxable income rather than adjusted gross income. B&P used a 1% of capital gains reported to estimate the fiscal impact. Based upon the 1% assumption, B&P estimates this proposal would reduce Total State Revenue by \$1.1 million in FY 2018 and thereafter if it applies only to individual taxpayers. If the proposal were to also apply to corporations, B&P estimates the impact could exceed an additional \$9.2 million FY 2018. Finally, B&P notes the impacts of this proposal will vary in the future due to the effects from SB 509 (2014).

Officials from the **Economic & Policy Analysis Research Center (EPARC)** stated they were unable to estimate the amount or value of employer securities within the state of Missouri, nor were they certain of the impact this proposal would have on the employer security market, and therefore were unable to provide an impact estimate of this bill.

Officials from the **Joint Committee on Administrative Rules** indicated this proposal is not anticipated to cause a fiscal impact to the Joint Committee on Administrative Rules.

Officials from the **Office of the Secretary of State** did not respond to a request for fiscal impact.

Oversight will use the fiscal impact amounts furnished by both the DOR and OA-B&P to estimate the annual General Revenue of reductions of an unknown amount, but up to (\$10.3 million) annually.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (6 Mo.)	FY 2018	FY 2019
GENERAL REVENUE FUND			
<u>Cost - DOR</u>			
Computer programming	(\$103,472)	\$0	\$0
<u>Revenue reduction</u>			
Tax deduction	<u>\$0</u>	(Up to <u>\$10,300,000</u>)	(Up to <u>\$10,300,000</u>)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$103,472)</u>	(Up to <u>\$10,300,000</u>)	(Up to <u>\$10,300,000</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

This proposal would impact small businesses that sell or exchange qualified employer securities.

FISCAL DESCRIPTION

Beginning January 1, 2017, this bill authorizes an income tax deduction for 50% of the net capital gain from the sale or exchange of employer securities of a Missouri corporation to a qualified Missouri employee stock ownership plan if, upon completion of the transaction, the qualified Missouri employee stock ownership plan owns at least 30% of all outstanding employer securities issued by the Missouri corporation. The provisions of the bill will expire on December 31, six years after the effective date.

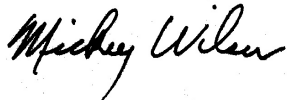
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration
 Budget and Planning
Economic & Policy Analysis Research Center
Joint Committee on Administrative Rules

NOT RESPONDING

Office of the Secretary of State



Mickey Wilson, CPA
Director
January 25, 2016

Ross Strobe
Assistant Director
January 25, 2016