

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5628-01  
Bill No.: SB 856  
Subject: Taxation and Revenue - Income; Securities; Revenue Department; Employers; Corporations  
Type: Original  
Date: February 2, 2016

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Bill Summary: This proposal creates a deduction for employee stock ownership plans.

**FISCAL SUMMARY**

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

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

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 6 pages.

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

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

**Oversight** was unable to receive 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.

In a similar proposal (HB 2030, 2016) 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 (\$26,652) for error corrections and correspondence in processing individual income tax returns and three (3) Revenue Processing Technicians I (\$26,652) 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 (\$26,652). 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.

ASSUMPTION (continued)

**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.

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

In a similar proposal (HB 2030, 2016) 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).

In a similar proposal (HB 2030, 2016) 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.

In a similar proposal (HB 2030, 2016) 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.

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

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

## FISCAL DESCRIPTION

For all tax years beginning on or after January 1, 2017, a taxpayer may deduct from their federal adjusted gross income used to determine their Missouri adjusted gross income an amount up to 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 the employee stock ownership plan includes at least 30% of all outstanding employer securities.

The act will sunset six years after enactment.

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



Mickey Wilson, CPA  
Director  
February 2, 2016

Ross Strobe  
Assistant Director  
February 2, 2016