COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5757-01
Bill No.: SB 920
Subject: Taxation and Revenue - Income; Revenue Department
Type: Original
Date: February 17, 2016

Bill Summary: This proposal adjusts the exemption amount allowed for each dependent based on the Consumer Price Index.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	($25,191)	$0	($1,179,000 to $3,000,000)
Total Estimated Net Effect on General Revenue	**($25,191)**	**$0**	**($1,179,000 to $3,000,000)**

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 6 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 at the **Office of Administration's Division of Budget and Planning** (**B&P**) assume that beginning for Tax Year 2016 this proposal would adjust the $1,200 dependent credit by the change in the consumer price index (CPI). The change in CPI is to be calculated using the average CPI over the previous tax year compared to the average CPI in calendar year 2016.

B&P calculates that the average CPI change has been 2.2% over the past 15 years. Therefore, B&P estimates that the inflation adjustment for FY 2018 would be 2.2% and the adjustment for FY 2019 would be 4.4%. In Tax Year 2013, the most recent year available, there were approximately 1.9 million dependents claimed. Based on these calculations, B&P estimates that this proposal will reduce Total State Revenue and General Revenue by $3 million in FY 2018 and $5.9 million in FY 2019.

Officials at the **Department of Revenue** (**DOR**) assume that beginning January 1, 2016, the legislation increases the dependency exemption deduction by the dollar amount multiplied by the cost-of-living adjustment. The cost-of-living adjustment for any taxable year is equal to $1,200 multiplied by the percentage the Consumer Price Index (CPI) for the prior calendar year exceeds the CPI for 2016. The legislation defines the term "Consumer Price Index" as the last Consumer Price Index for All Urban Consumers published by the United States Department of Labor or successor agency.

Based on a 15 year average of the CPI of 2.2 percent, DOR estimates the following reductions to Total State Revenue:

Tax Year 2017:	($2.99 Million)
Tax Year 2018:	($5.92 Million)
Tax Year 2019:	($8.81 Million)

DOR assumes this proposal would require form changes and programming. DOR's Collections & Tax Assistance Division will see additional contacts due to adjustments to the exemption amounts. The section requires two (2) Tax Collection Technicians I ($26,652) for every 15,000 additional calls on the delinquent tax line and 15,000 calls on the non-delinquent tax line. Each technician requires CARES equipment and license.

ASSUMPTION (continued)

Oversight notes this proposal would change the dependency deduction on income tax returns, but 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 $25,191 based on 336 hours of programming at the current state contract rate of $75 per hour for IT Contractor hours to make changes to DOR systems

Officials at the **University of Missouri's Economic & Policy Analysis Research Center** (**EPARC**) assume that according to the Bureau of Labor Statistics, the average increase in the CPI for All Urban Consumers for the United States over the last three years ending August 31 is approximately 1.24%. Therefore, within our simulations we will use this average percentage increase to increase the Missouri dependent exemption to $1,215 for the 2016 tax year, to $1,230 for the 2017 tax year, and to $1,245 for the 2018 tax year.

The individual income tax for Missouri (2014) was a baseline for the analysis. Net Tax Due equals $5,563.753 million. When the dependent exemption is increased to $1,215 for the 2016 tax year, Net Tax Due reduces to $5,562.574 million. This translates into a decrease in Net General Revenue of $1.179 million. When the dependent exemption is increased to $1,230 for the 2017 tax year, Net Tax Due reduces to $5,561.392 million. This translates into a decrease in Net General Revenue of $2.361 million. When the dependent exemption is increased to $1,245 for the 2018 tax year, Net Tax Due reduces to $5,560.209 million. This translates into a decrease in Net General Revenue of $3.544 million. If enacted, EPARC estimates this bill will reduce Net General Revenue by $1.179 million in 2017, $2.361 million in 2018 and $3.544 million in 2019.

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

In response to similar legislation with agency rule making authority, the Office of the Secretary of State stated the following:

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State (SOS)** state 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 SOS 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, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves 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.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Oversight assumes the first year the increased exemption could take effect is tax year 2018 (FY 2019). A CPI increase over the 2016 calendar year cannot be computed until the 2017 calendar year is completed. Due to the volatility of the projected CPI for FY 2019, Oversight will use a range of reduced revenue for FY 2019 from $1,179,000 (1.24% CPI) to $3,000,000 (2.2% CPI).

FISCAL IMPACT - State Government	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE			
Revenue Reduction	$0	$0	($1,179,000 to $3,000,000)
Income tax dependency exemption increase			
Cost -DOR -programming changes	($25,191)	$0	$0
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	**($25,191)**	**$0**	**($1,179,000 to 3,000,000)**

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

Under this act, the amount a taxpayer may deduct from their Missouri taxable income for each dependent will automatically increase according to the Consumer Price Index. Each year, a taxpayer may deduct from their Missouri taxable income, $1,200 plus an additional amount equal to $1,200 multiplied by the percentage by which the Consumer Price Index for that year exceeds the Consumer Price Index for the 2016 calendar year.

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's Division of Budget and Planning
University of Missouri
Economic & Policy Analysis Research Center

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HO:LR:OD