

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4579-01
Bill No.: SB 615
Subject: Department of Revenue, Tax Credits
Type: Original
Date: December 27, 2017

Bill Summary: This proposal establishes the Missouri Earned Income Tax Credit Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	\$0	\$0	(Could exceed \$57,901,000)
Total Estimated Net Effect on General Revenue	\$0	\$0	(Could exceed \$57,901,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
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 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
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 2019	FY 2020	FY 2021
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal provides a non-refundable Earned Income Tax Credit (EITC) to resident taxpayers in an amount equal to 20% of the federal EITC starting in tax year 2020. Using tax year 2015 data provided by DOR, the most recent year available, B&P estimates that a non-refundable earned income tax credit will reduce Total State Revenue and General Revenue by \$61.8 million annually beginning in FY 2021.

This proposal will impact the calculation under Article X, Section 18(e).

Officials at the **Department of Revenue (DOR)** assume the proposed language creates the Missouri Earned Income Tax Credit Act. Beginning January 1, 2020, the legislation allows eligible taxpayers a tax credit equal to twenty percent of the amount the taxpayer received under the federal earned income tax credit. If the credit exceeds the taxpayer's tax liability, the legislation prohibits refunding or carrying forward the credit to subsequent tax years.

The Department will be required to prepare an annual report consisting of the amount of revenue expended on the earned income tax credit, the number of credits claimed, and the average value of the credit issued. In addition, the Department is required to contract with one or more nonprofit groups to notify taxpayers of their potential eligibility to receive the credit.

The Personal Tax Section will require one Temporary Tax Employee (\$8,164), one Revenue Processing Technician I (\$26,340) for every 14,000 errors, one Revenue Processing Technician I (\$26,340) for every 5,700 pieces of correspondence generated, and one Management Analysis Specialist I (\$38,304) for reporting requirements and contracting with nonprofit groups. The Collections & Tax Assistance Section will receive additional customer contacts with questions regarding the tax credit and notice of adjustments. This credit is not refundable and the federal credit is refundable. In addition, current law allows only a portion of the federal credit. This will lead to confusion and errors as a result in the adjustment notices. This section requires one Tax Collection Technician I (426,340) for every 12,000 contacts annual on the non-delinquent tax line. This technician requires CARES equipment and license.

DOR estimates the total FTE cost for FY 2020 would be \$256,747 and for FY 2021 would be \$258,870. DOR would not need FTE in FY 2019. DOR assumes it will be able to absorb the above listed costs. If multiple bills pass which require Department resources and updates, the Department could request additional FTE's and related equipment and expenses through the appropriation process.

ASSUMPTION (continued)

Officials at the **University of Missouri's Economic and Policy Analysis Research Center (EPARC)** assume this bill would create the Missouri Earned Income Tax Credit Act, authorizing an individual income tax credit equal to 20% of any earned income tax credit claimed by the taxpayer on the federal income tax return. This credit will not be refundable.

The individual income tax for Missouri (2016) is the baseline for the analysis. Net Tax Due equals \$5,512.291 million. If the aforementioned tax credit is implemented, Net Tax Due reduces to \$5,454.390 million. This translates into a decrease in Net General Revenue of \$57.901 million.

Note: The increase seen in the General Tax Credits figure is the complete measure of 20% of Missouri filers' Federal Earned Income Credit. Many filers are able to reduce their tax burden to zero before using their entire credit. Because this tax credit does not allow the remainder to be refunded to the filer, our impact estimation is only concerned with the reduction in Net Tax Due. To reiterate, our estimate is this bill will reduce Net General Revenue by \$57.901 million.

Oversight will show the impact as "Could exceed" the estimate provided by EPARC for the fiscal note.

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

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.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
GENERAL REVENUE			
<u>Revenue Reduction</u> - creation of the Missouri Earned Income Tax Credit §135.760	<u>\$0</u>	<u>\$0</u>	(Could exceed <u>\$57,901,000</u>)
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>\$0</u>	(Could exceed <u>\$57,901,000</u>)

<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This act establishes the Missouri Earned Income Tax Credit Act.

For all tax years beginning on or after January 1, 2020, this act creates a tax credit in the amount of twenty percent of the amount of a taxpayer's federal earned income tax credit. The tax credit shall be applied to a taxpayer's Missouri income tax liability after all reductions for other credits for which the taxpayer is eligible have been applied. The tax credit shall not exceed the amount of the taxpayer's tax liability, and shall not be refundable.

The Department of Revenue shall determine whether a taxpayer who did not apply for the tax credit established by this act is eligible and shall notify such taxpayer of his or her potential eligibility.

The Department shall prepare an annual report regarding the tax credit established by this act containing certain information as described in the act.

FISCAL DESCRIPTION (continued)

The Department shall contract with one or more nonprofit groups to provide notice of the tax credit established by this act to eligible taxpayers.

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
Division of Budget and Planning
Office of the Secretary of State
University of Missouri's Economic and Policy Analysis Research Center

Mickey Wilson, CPA

Ross Strope



Director
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Assistant Director
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