

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5538S.02I
 Bill No.: SB 1138
 Subject: Taxation and Revenue - Income
 Type: Original
 Date: March 23, 2022

Bill Summary: This proposal authorizes a tax credit for all taxpayers.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue Fund*	(\$1,699,053,255) to (\$2,454,930,605)		
Total Estimated Net Effect on General Revenue	(\$1,699,053,255) to (\$2,454,930,605)	\$0	\$0

*Oversight notes the estimated fiscal impact is reflected in FY 2023. However, with the emergency clause and if additional supplemental appropriation authority were given to the Department of Revenue to issue refunds this fiscal year, at least some of these refunds could be issued in FY 2022.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration – Budget & Planning (B&P)** note:

Low Estimate

For tax year 2020, 3,187,436 individuals and pass-through businesses filed an individual income tax return, 140,832 corporations filed a corporate income tax return, and 61,206 individuals claimed the PTC (without filing a corresponding income tax return). B&P does not have enough information to estimate accurately how many non-residents may also apply for this tax credit.

Therefore, B&P estimates that at least 3,389,474 (3,187,436 individuals and pass-through businesses + 140,832 corporations + 61,206 PTC claimants) taxpayers would qualify for this tax credit. Using the above assumptions, B&P estimates that this proposal could reduce TSR and GR by an amount that could exceed \$1,694,737,700 (3,389,474 x \$500) in FY23.

High Estimate

However, as noted above, there is no limit to who counts as a taxpayer. Therefore, it is possible that all Missouri adults over age 18 could file a return in order to claim the \$500 refundable credit. As of July 2020, the U.S. Census Bureau estimates that there are 4,764,733 individuals age 18 and older living in Missouri. B&P does not have enough information to estimate accurately how many non-residents may also apply for this tax credit.

Therefore, B&P estimates that at least 4,905,565 (4,764,733 Missouri residents age 18 and older + 140,832 corporations) taxpayers could qualify for this tax credit. Using the above assumptions, B&P estimates that this proposal could reduce TSR and GR by an amount that could exceed \$2,452,782,500 (4,905,565 x \$500) in FY23.

Officials from the **Department of Revenue (DOR)** assume this proposal has an emergency clause. For the simplicity of the fiscal note the Department will assume the proposal will begin July 1, 2022 (FY 2023).

Section 143.803

This gives an automatic refundable tax credit of \$500 for taxpayer's for their tax year 2021 return. This requires the Department to issue the refund to the taxpayers by June 1, 2022, without any requirements that a taxpayer have to amend their return to receive the credit. This is to be a one-time credit applied to a taxpayer's state tax liability.

The Department has many concerns with this proposal that make determining an impact challenging. They are listed below.

Date of Passage of the Proposal

The Department is required to have all the refunds posted to taxpayer's accounts by June 1, 2022, with no guarantee DOR will have time to implement this. This bill could be passed in the final week of session and not signed by the Governor until after the June 1, 2022 deadline for refunds. While the emergency clause does allow for implementation quicker than the normal August 28, 2022 effective date, the deadline for the Department implementing this proposal could be before the actual effective date. The shorter amount of time for implementation, the more temporary staff (\$12,750 each) will be needed to handle the refunds.

This proposal does not have a cut-off date for qualifying for the tax credit. If this proposal required that the return be received by a certain date, such as April 18, 2022 (this year's deadline for filing the individual income tax return) then the Department may be able to get out the payments by the due date of June 1st depending on the effective date. However, if taxpayers are allowed to file returns all the way up until June 1, 2022 or after and still receive the credit, then the Department is unsure how DOR could get them processed timely enough to get the refund checks out.

Each year the Department processes approximately 3,200,000 individual income tax returns. However, it should be noted that according to the U.S. Census Bureau the population in the state is 6,154,913. Many of these residents that do not file can be claimed as a dependent on a return or do not have enough income to make filing a tax return a requirement. Assuming parents will still claim their children on their returns but that those over 18 with little income could claim this one-time credit DOR could see the number of filers reach 4,764,733 instead of the 3.2M.

This proposal does not limit this credit to taxpayers with a Missouri tax liability nor does it require you be a Missouri resident. Therefore, non-residents with little or no Missouri taxable income could be eligible to claim this refundable credit. The Self-Employed Health Insurance tax credit is similarly designed. It does not restrict the credit to Missouri residents or require Missouri taxable income and each year over 800 non-residents claim the credit for over \$950,000 loss to general revenue. Given that many non-residents claim the limited tax credit DOR estimate that this \$500 credit could result in significantly more than \$1 million paid out to non-residents.

This proposal allows the credit to a taxpayer; however, taxpayer is not defined. This proposal does not indicate this credit is to be applied to a person's individual income tax return. Therefore it is possible that under Chapter 143 of statutes, this could apply to a taxpayer's individual income tax return, their corporate income tax return, their withholding tax, their professional athlete and entertainers return, and declaration statements.

This proposal requires the Department to apply the tax credit to a taxpayer's tax liability. The Department notes that often taxpayers do not pay and have an outstanding tax liability to the state. Additionally, several agencies participate in the tax debt offset program that allows tax refunds to be sent to the agency that holds the debt. It is unclear if any of the refunds could be applied to outstanding tax liabilities or to the debt offset program or if the Department is required to mail the \$500 to the taxpayer.

Given the proposal's language DOR estimates the following impact:

Refund Amounts:

Low Estimate

For tax year 2020, 3,187,436 individuals and pass-through businesses filed an individual income tax return, 140,832 corporations filed a corporate income tax return, and 61,206 individuals claimed the PTC (without filing a corresponding income tax return). Therefore, at least 3,389,474 (3,187,436 individuals and pass-through businesses + 140,832 corporations + 61,206 PTC claimants) taxpayers would qualify for this tax credit. Assuming they are all entitled to a refund check and the \$500 can't be used against their outstanding tax liability or debt offset, it would result in a loss to general revenue of \$1,694,737,000 ($\$500 * 3,389,474$) in FY23. If non-residents are allowed to claim the credit then this proposal could exceed \$1,694,737,000.

High Estimate

However, as noted above there is no limit to who counts as a taxpayer. Therefore, it is possible that all Missouri adults over age 18 could file a return in order to claim the \$500 refundable credit. As of July 2020, the U.S. Census Bureau estimates that there are 4,764,733 individuals age 18 and older living in Missouri. The Department estimates that at least 4,905,565 (4,764,733 Missouri residents age 18 and older + 140,832 corporations) taxpayers could qualify for this tax credit. The Department assumes this could reduce general revenue by an amount that could exceed \$2,452,782,500 in FY23.

Programming

The Department would be required to program their Individual Income Tax System to automatically apply the \$500 to each taxpayer's account. The programming costs for the Individual Income Tax System are estimated at \$10,000. Should this be determined that it would need to be added into the Corporate, and withholding databases these would require additional programming changes expected at another \$10,000.

Notice of the \$500 Refund

This proposal does not indicate if the Department is required to provide notice of the \$500 refund to taxpayers. Should the Department be allowed to put a notice about the refund check on their

website and do a press release, no additional fiscal impact would be expected. However, they if have to alert filers of the refund, they assume they could do that with a postcard. Their postcard costs are \$0.412 per piece, which includes postage, and the printing of the card. To at least the 3.2M filers it would cost \$1,318,400.

Mailings

Over the last two tax years (2019 & 2020) 75% of the individual income tax filers (1,375,000) have received a refund check by direct deposit. Another 450,000 receive their refund by check by the remaining 1,375,000 owe the state money. They assume that they could direct deposit into the accounts of those they already direct deposit. For those that currently receive a paper check, or owe the Department money, the DOR won't have direct deposit information. The DOR would be required under this proposal to mail a refund check to all such an individuals.

In order to mail the refund checks to the 1,375,000 filers it will cost \$.526 per piece, which includes the envelope, postage and printed check. This would cost \$723,250.

The Department notes that it would take 2 team members running the mail machine 258 hours to get out the 1,375,000 checks.

Staff

Each temporary staff person needed to be brought on to help get the returns and refunds processed will cost \$12,750. The Department assumes they will need a minimum of 10 temporary staff to get the refunds out.

Appropriation

The Department's existing FY 2022 budget does not contain enough appropriation authority to cover the costs of these refund checks or the mailing costs. Without additional appropriation authority they could not meet the June 1, 2022 refund deadline.

Oversight notes that B&P and DOR both assume the proposal would have a direct fiscal impact to the general revenue fund.

Oversight notes that the proposal allows for one time refunds for all tax filers (people & eligible entities alike) that are likely impact the General Revenues in FY 2023 only.

Oversight reviewed the last 10 years of tax filings, as reported in financial annual filing submitted by the DOR as shown below:

Tax Year(s)	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	Average
Individual	2,931,481	3,058,333	3,102,564	3,002,736	3,038,443	3,000,047	2,847,607	2,876,214	2,894,584	2,917,023	2,966,903
Corporations	136,521	138,762	140,679	146,482	155,339	148,798	171,263	157,939	160,203	157,378	151,336
Fudiciary (trust, etate)	43,937	52,385	52,360	51,863	53,780	52,874	55,419	50,587	51,269	49,391	51,387
Individuals + Corporations	3,068,002	3,197,095	3,243,243	3,149,218	3,193,782	3,148,845	3,018,870	3,034,153	3,054,787	3,074,401	3,118,240

Oversight notes [The DOR Financial Report](#) shows, on average, there were 3,118,240 individual and corporation tax returns filed in 2011-2020 tax period(s).

Oversight notes the DOR's estimated impact is probable. Therefore, **Oversight** will reflect a DOR's impact to the general revenues in the fiscal note for FY 2023.

Oversight notes the DOR requesting additional appropriation for FTEs needed to carry out the task of disbursement of the refunds. The DOR notes that the current appropriation (FY 2022) does not allow the Department to comply with the proposal and carry out the necessary duties for issuing refunds to everyone who filed tax returns for TY2021 in Missouri. Therefore, **Oversight** will also note the estimated FTEs costs, including mailing, in the fiscal note for FY 2023.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE FUND			
<u>Cost</u> – DOR – Section 143.803 Issuance of refunds to all eligible entities and individuals	(\$1,696,905,150) to (\$2,452,782,500)		
<u>Cost</u> – DOR – Section 143.803 – FTEs			
Salaries	(\$106,205)	\$0	\$0
Fringe Benefits	\$0	\$0	\$0
Expense & Equipment	\$0	\$0	\$0
Total Cost - DOR	(\$106,205)	\$0	\$0
FTE Change total - DOR	12 FTE	0 FTE	0 FTE
<u>Cost</u> – DOR – Section 143.803 mailing of notice and refund to all eligible entities and individuals	<u>(\$2,041,900)</u>	<u>\$0</u>	<u>\$0</u>
NET ESTIMATED EFFECT ON THE GENERAL REVENUE FUND	<u>(\$1,699,053,255) to (\$2,454,930,605)</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

Small businesses would be able to receive \$500 refund as a result of this proposal.

FISCAL DESCRIPTION

For the 2021 tax year, this act allows a taxpayer to receive a tax credit in the amount of \$500. The Department of Revenue shall automatically apply the tax credit authorized by this act to a taxpayer's tax liability, and a taxpayer shall not be required to apply for such tax credit or to amend a return to claim such tax credit.

Tax credits authorized by this act shall be refundable, and such refunds shall be remitted to a taxpayer no later than June 1, 2022.

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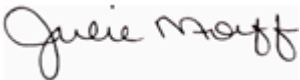
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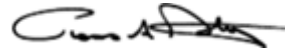
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration – Budget & Planning
Department of Revenue



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March 23, 2022



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