

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. NO.: 2303-02  
BILL NO.: SB 575  
SUBJECT: Revenue Dept.; Taxation and Revenue-General-Income  
TYPE: Original  
DATE: January 12, 2000

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$72,677)	(\$138,265,646)	(\$143,767,295)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$72,677)</b>	<b>(\$138,265,646)</b>	<b>(\$143,767,295)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None			
<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 LOCAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 4 pages.

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**FISCAL ANALYSIS**

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state according to the Federal Statistics of Income Bulletin, there were 393,452 Missouri taxpayers that received an earned income tax credit on their federal return in 1997. The Division of Taxation indicates this credit would have a 2.5% impact to the new income tax process. Therefore, one temporary tax season employee would be needed for five months (at a cost of \$6,065) in order to process these credits, and two Tax Processing Tech I's would be needed in order to review and correct the errors generated by this legislation.

Additional funding for postage would be needed in order to notify potentially eligible filers, as required in this legislation. The Division of Administration indicates the basic postage for an automated mailing is \$.27 per notice. However, the number of taxpayers needing notification is unknown at this time.

This legislation would require modifications to the income tax system. The Division of Taxation estimates these modifications, including programming changes, would require 1,427 hours of programming and supervision at a cost of \$27,144. Modifications to the income tax return and schedules would be completed with existing resources. The State Data Center charges would increase due to the additional storage and fields to be captured. Funding in the amount of \$9,288 would be requested for implementation costs and \$890 for ongoing costs per year.

Officials of the **Office of Administration (COA)** assume that taxpayers would not adjust their withholdings in FY 2001 to take advantage of this credit. COA estimate is based on the amount of earned income tax credit claimed in Missouri in 1997 from the Spring 1999 Statistics of Income. COA assumes an annual growth rate of four percent based on U. S. Treasury forecasts. The lower limit is based on the assumption that only 85% of taxpayers who use the federal credit will use the state credit. The upper limit assumes 100% of taxpayers who use the federal credit will use the state credit.

For purposes of this fiscal note, **Oversight** has elected to reflect the upper limit revenue impact estimate of the Office of Administration.

**This proposal would result in a decrease in Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
<b>GENERAL REVENUE FUND</b>			
<u>Cost to General Revenue Fund</u>			
<u>Department of Revenue (DOR)</u>			
Personal Service (2.5 FTE)	(\$50,955)	(\$48,813)	(\$50,032)
Fringe Benefits	(\$7,322)	(\$15,010)	(\$15,385)
Expense and Equipment	(\$14,400)	(\$1,823)	(\$1,878)
Total <u>Cost</u> -Department of Revenue	(\$72,677)	(\$65,646)	(\$67,295)
 <u>Loss to General Revenue Fund</u>			
20% Earned income tax credit	\$0	(\$138,200,000)	(\$143,700,000)
 <b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
	<b><u>(\$72,677)</u></b>	<b><u>(\$138,265,646)</u></b>	<b><u>(\$143,767,295)</u></b>
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2001 (10 Mo.)	FY 2002	FY 2003
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

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

DESCRIPTION

This act authorizes, for all taxable years beginning on or after January 1, 2001, a state income tax credit equal to twenty percent of the amount which a taxpayer claims as a federal earned income tax credit. The credit is refundable to the extent that the credit exceeds the amount of tax due or may be carried forward to a subsequent taxable year. The Department of Revenue is required to notify potential claimants of their eligibility.

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

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SOURCES OF INFORMATION

Department of Revenue  
Office of Administration

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is written in a cursive style with a large initial "J".

Jeanne Jarrett, CPA  
Director  
January 12, 2000