COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

# FISCAL NOTE

L.R. NO.: 2804-01
BILL NO.: SB 668
SUBJECT: Revenue Dept.; Taxation and Revenue-General-Income
TYPE: Original
DATE: February 18, 2000

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## FISCAL SUMMARY

| ESTIMATED NET EFFECT ON STATE FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2001 | FY 2002 | FY 2003 |
| General Revenue | ($101,829,034) | ($456,194,072) | ($510,937,360) |
| | | | |
| **Total Estimated Net Effect on All State Funds** | **($101,829,034)** | **($456,194,072)** | **($510,937,360)** |

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2001 | FY 2002 | FY 2003 |
| | | | |
| | | | |
| **Total Estimated Net Effect on All Federal Funds** | **$0** | **$0** | **$0** |

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2001 | FY 2002 | FY 2003 |
| **Local Government** | **$0** | **$0** | **$0** |

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 3 pages.

## FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state the proposal would allow taxpayers to subtract from their federal adjusted gross income any capital gains from the sale or exchange of a capital asset. This legislation also repeals section 135.357, relating to capital gains.

**ADMINISTRATIVE IMPACT:**

The Division of Taxation does not anticipate a significant number of errors created by this subtraction and at this time would not request additional FTE. However, if the number of errors is substantial, the Division of Taxation would need one Tax Processing Technician for six months for every 30,000 additional errors. This proposal would require modifications to the income tax system. The Division of Taxation and Collections estimates these modifications, including programming changes, would require 908 hours of overtime at a cost of $20,808. Modifications to the income tax return and schedules would be completed with existing resources.

**Oversight** assumes that modifications to the income tax system would be completed with existing resources.

Officials from the **Office of Administration (COA)** state they have assumed that this proposal would have an estimated impact of approximately $0 in FY 2001, ($456,194,072) in FY 2002, and ($510,937,360) in FY 2003. COA assumes that taxpayers would not adjust their withholdings in FY 2001 to take advantage of the elimination of income tax on capital gains. The estimate is based on the IRS's calculation of capital gains claimed by Missourians in 1997 as reported in the Spring, 1999 edition of the "Statistics of Income". In calculating the estimate, COA assumes a marginal tax rate of 6% and a growth rate of 12%. COA states that from 1990 to 1997 the average growth rate of capital gains claimed by Missourians was 19.7% and the national growth rate was 19.1%.

**Oversight** estimates a loss to the General Revenue Fund of $101,829,034 for FY 2001 due to the possibility of reduced withholdings and estimated income tax payments for five months of calendar year 2001. **Oversight** assumes 25% of Missouri taxpayers would adjust payments, however, it should be noted that this amount could be less depending on taxpayers' awareness of the state tax exemptions on capital gains.

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

| FISCAL IMPACT - State Government | FY 2001 (6 Mo.) | FY 2002 | FY 2003 |
|---|---|---|---|
| **GENERAL REVENUE FUND** | | | |
| Loss - General Revenue Fund | | | |
| Elimination of state tax on capital gains | ($101,829,034) | ($456,194,072) | ($510,937,360) |
| **ESTIMATED NET EFFECT ON GENERAL REVENUE FUND** | **($101,829,034)** | **($456,194,072)** | **($510,937,360)** |

| FISCAL IMPACT - Local Government | FY 2001 (6 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 exempts capital gains from state taxation, beginning January 1, 2001.

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

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Director
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