

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3036-01
BILL NO.: SB 920
SUBJECT: Estates, Wills and Trusts; Taxation and Revenue-Inheritance-Income
TYPE: Original
DATE: March 13, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$132,238,619) to (Unknown)	(\$138,791,968) to (Unknown)	(\$145,789,253) to (Unknown)
Total Estimated Net Effect on <u>All</u> State Funds*	(\$132,238,619) to (UNKNOWN)	(\$138,791,968) to (UNKNOWN)	(\$145,789,253) to (UNKNOWN)

*The revenue loss from the income tax credit for Federal Estate Taxes paid is unknown, but expected to be significant.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> 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 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this proposal repeals the state estate tax and creates an income tax credit for federal estate tax paid.

The Division of Taxation will need one temporary tax season employee (a cost of \$6,067) for every 180,000 returns filed with this credit and one Tax Processing Tech I for every 3,000 pieces of correspondence received regarding the credit. The Division of Taxation will also need one Tax Processing Tech I for every 30,000 errors generated by this legislation.

This legislation will require modifications to the individual income tax system. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of contract labor at a cost of \$41,617. Modifications to the income tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$9,007 is requested for implementation costs and \$1,673 for on-going costs.

Oversight assumes that the Department of Revenue would experience an administrative savings of approximately 3 FTE and the associated fringe benefits and expense, due to the repeal of the state estate tax.

Oversight also assumes the Department of Revenue would require 692 hours of overtime at a cost of \$20,808 for modifications to the income tax system. Oversight also estimates that funding for State Data Center charges would be \$5,630 for additional storage and fields to be captured.

Officials of the **Office of Administration (COA)** state this proposal repeals the state estate tax and creates an income tax credit for federal estate tax paid.

COA staff states that the consensus revenue forecast for Missouri's estate tax is \$132.3 million in FY 2001, \$138.9 million in FY 2002 and \$145.9 million in FY 2003. According to the CBO Budget and Economic Outlook for Fiscal Years 2001-2010 published in January of 2000, the federal estate tax is \$26.88 billion in FY 2001, \$27.72 billion in FY 2002 and \$29.4 billion in FY 2003. Missouri is assumed to be 1.9% of the national total. Repealing Missouri's estate tax will not lower the amount of estate tax an individual will pay. If Missouri's estate tax is repealed, the taxpayer would then have to pay the federal government the portion that is now collected by Missouri.

ASSUMPTION (continued)

Oversight has not been able to determine how much of the income tax credit generated by this proposal could be utilized. However, **Oversight** assumes, for purposes of this fiscal note, that the income tax credit generated from the federal estate taxes paid would far exceed the individual income tax liability for which it is to be applied against. Therefore, **Oversight** has ranged the revenue impact of this proposal from the revenue loss to General Revenue for the repeal of the estate tax to an unknown loss expected to be significant for the income tax credit for federal estate taxes paid.

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
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GENERAL REVENUE FUND

Savings to General Revenue Fund
Department of Revenue (DOR)

Personal Service (3 FTE)	\$65,400	\$80,442	\$82,453
Fringe Benefits	\$20,110	\$24,736	\$25,354
Expense	<u>\$2,309</u>	<u>\$2,854</u>	<u>\$2,940</u>
Total Administrative <u>Savings-DOR</u>	\$87,819	\$108,032	\$110,747

Loss to General Revenue Fund

Repeal of Estate Tax	(\$132,300,000)	(\$138,900,000)	(\$145,900,000)
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Income tax credit for Federal Estate Taxes Paid*	(Unknown)	(Unknown)	(Unknown)
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Cost - Department of Revenue

Reprogramming Costs	(\$26,438)	\$0	\$0
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**ESTIMATED NET EFFECT ON
 GENERAL REVENUE FUND***

<u>(\$132,238,619)</u>	<u>(\$138,791,968)</u>	<u>(\$145,789,253)</u>
<u>to</u>	<u>to</u>	<u>to</u>
<u>(UNKNOWN)</u>	<u>(UNKNOWN)</u>	<u>(UNKNOWN)</u>

***The revenue loss from the income tax credit for Federal Estate Taxes paid is unknown, but expected to be significant.**

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<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 repeals the Missouri estate tax and creates a credit against state income tax for federal estate taxes paid.

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
Department of Revenue



Jeanne Jarrett, CPA
Director
March 13, 2000