

COMMITTEE ON LEGISLATIVE RESEARCH
 OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0220-01
Bill No.: SB 57
Subject: Revenue Dept.; Taxation and Revenue-General-Income
Type: Original
Date: January 10, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$39,819,610)	(\$78,569,988)	(\$125,907,566)
Total Estimated Net Effect on <u>All</u> State Funds	(\$39,819,610)	(\$78,569,988)	(\$125,907,566)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
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 legislation phases in an earned income tax credit on the Missouri income tax return. For tax year beginning on January 1, 2001, a resident individual is authorized a state earned income tax credit equal to seven percent of the federal earned income tax credit. Beginning January 1, 2002, a taxpayer is authorized a state earned income tax credit equal to thirteen and one-half percent, and beginning January 1, 2003, a taxpayer is authorized a state earned income tax credit equal to twenty percent of the federal earned income tax credit. If the credit exceeds the taxpayer's liability, the credit may be refunded or carried forward.

This credit will have an extra 20 second impact on all returns processed. The Division of Taxation will need one temporary tax season employee (a cost of \$6,067) for every 75,000 returns filed with this credit and one tax season employee for every 2,000 pieces of correspondence received regarding the credit. The Division will also need one Tax Processing Tech I for every 20,000 additional errors generated by this credit.

The Customer Assistance Bureau will need additional tax assistance field personnel to handle the walk in questions until the credit is maximized. One Field Agent is requested for every additional 1,285 walk-ins per year. Also, the Customer Assistance Bureau anticipates the call volume to increase. A telephone collector can handle 2,000 calls per month, therefore, one Telephone Collector is requested for every 24,000 additional calls received regarding this credit.

This legislation will require modifications to the individual income tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 1,125 hours of overtime at a cost of \$29,422. Modifications to the income tax returns and schedules would be completed with existing resources. State Data Center charges would increase due to the additional storage and fields to be captured. Funding in the amount of \$3,657 would be requested for implementation costs.

For purposes of this fiscal note **Oversight** has allowed the Department of Revenue 2.5 FTE, the programming modification expense (\$29,422) and State Data Center charges of (\$3,657).

According to officials at the **University of Missouri**, there was a total of \$600.0 million in federal earned income tax credits filed with a Missouri address for 1999. Assuming a 2.5% growth rate would generate federal earned income tax credits of \$630.4 million in FY2002, \$646.1 million in FY2003 and \$662.3 in FY2004. Using the 7% proposed for a Missouri earned income tax credit for tax year 2001 filed in 2002, would calculate to \$44.1 million state impact. Using the 13.5% would yield a \$87.2 million revenue loss in FY2003 and using 20% of the ASSUMPTION (continued)

federal earned income tax credit would yield a \$132.5 million revenue loss in FY2004.

For purposes of this fiscal note, **Oversight** has assumed that for FY 2002 and FY 2003 90% of taxpayers who use the federal credit will use the state credit. For FY 2004 **Oversight** assumes that 95% of taxpayers who use the federal credit will use the state credit. **Oversight's** estimate is based on the amount of earned income tax credit claimed in Missouri for tax year 1999 according to the University of Missouri Research Center (\$600,000,000). **Oversight** assumed an annual growth rate of 2.5%. **Oversight's** assumption is based on conversations with other states that currently have an earned income tax credit in place and the provision in this proposal that requires the Department of Revenue to notify potentially eligible filers.

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

<u>FISCAL IMPACT - State Government</u>	FY 2002	FY 2003	FY 2004
	(10 Mo.)		
GENERAL REVENUE FUND			
<u>Cost to General Revenue Fund</u>			
<u>Department of Revenue (DOR)</u>			
Personal Service (2.5 FTE)	(\$42,270)	(\$50,748)	(\$52,017)
Fringe Benefits	(\$14,089)	(\$16,914)	(\$17,337)
Expense and Equipment	<u>(\$48,051)</u>	<u>(\$1,176)</u>	<u>(\$1,212)</u>
Total <u>Cost</u> - Department of Revenue	(\$104,410)	(\$68,838)	(\$70,566)
 <u>Loss to General Revenue Fund</u>			
Earned income tax credit	(\$39,715,200)	(\$78,501,150)	(\$125,837,000)
 ESTIMATED NET EFFECT ON			
GENERAL REVENUE FUND			
	<u>(\$39,819,610)</u>	<u>(\$78,569,988)</u>	<u>(\$125,907,566)</u>
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2002	FY 2003	FY 2004
	(10 Mo.)		
	\$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 bill allows a state individual income tax credit equal to a percentage of any earned income tax credit claimed by the taxpayer on the federal income tax return. The percentage of the federal

credit allowed will be 7% for tax year 2001, 13.5% for tax year 2002, and 20% for tax year 2003 and thereafter. Any amount of credit which exceeds the taxpayer's liability in any tax year will be refunded to the taxpayer or carried forward into future tax years.

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
University of Missouri Research Center



Jeanne Jarrett, CPA
Director

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