

COMMITTEE ON LEGISLATIVE RESEARCH  
 OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0321-01  
Bill No.: SB 152  
Subject: Taxation and Revenue-Income; Revenue Dept.  
Type: Original  
Date: January 8, 2001

FISCAL SUMMARY

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$35,634,937)	(\$149,507,269)	(\$156,982,632)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$35,634,937)</b>	<b>(\$149,507,269)</b>	<b>(\$156,982,632)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
<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 2002	FY 2003	FY 2004
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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

FISCAL ANALYSIS

## ASSUMPTION

In a similar previous proposal, officials of the **Department of Revenue (DOR)** stated this legislation allows a subtraction from a taxpayer's federal adjusted gross income for Federal Insurance Contribution payments made by the taxpayer, to the extent that the payments are not otherwise deducted from the taxpayer's federal adjusted gross income. The maximum deduction cannot exceed \$6,000 per taxpayer and becomes effective on or after January 1, 2002.

The number of taxpayers eligible for this subtraction is unknown at this time. The Division of Taxation will need one temporary tax season employee (a cost of \$6,067) for every 15,000 returns filed with this subtraction and one Tax Processing Tech I for every 3,000 pieces of correspondence received regarding the subtraction. 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 1,038 hours of overtime at a cost of \$31,213. 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 \$6,755 is requested for implementation costs and \$1,867 for on-going costs.

In a similar previous proposal, **University of Missouri Research Center** stated that for tax year 1998 there was \$2.48 billion in FICA taxes unclaimed by Missouri taxpayers. Using an average tax rate of 4.96% would yield a revenue loss of approximately \$123 million. For FY 2001 a revenue loss of approximately \$135,607,500 would be reflected. A 5% growth rate was assumed.

Officials from the **Office of Administration - Budget and Planning (BAP)** did not respond to this fiscal note request.

**Oversight** estimates a loss to the General Revenue Fund of \$35,596,969 for FY 2002 due to the possibility of reduced withholding and estimated income tax payments for the five months of calendar year 2002. **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 deductibility of FICA taxes in determining state income tax and their desire to adjust withholdings or estimated payments.

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

<u>FISCAL IMPACT - State Government</u>	FY 2002 (6 Mo.)	FY 2003	FY 2004
<b>GENERAL REVENUE FUND</b>			
<u>Loss to General Revenue Fund</u>			
FICA Deduction	(\$35,596,969)	(\$149,507,269)	(\$156,982,632)
<u>Cost - Department of Revenue</u>			
Reprogramming costs	(\$37,968)	\$0	\$0
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$35,634,937)</u></b>	<b><u>(\$149,507,269)</u></b>	<b><u>(\$156,982,632)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2002 (6 Mo.)	FY 2003	FY 2004
	\$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 from state taxation the first \$6,000 paid in taxes under the Federal Insurance Contributions Act (FICA).

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

NOT RESPONDING: Office of Administration  
Budget and Planning



Jeanne Jarrett, CPA  
Director  
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