

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0433-01
Bill No.: SB 205
Subject: Children and Minors; Revenue Dept.; Taxation and Revenue - Income
Type: Original
Date: February 7, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$109,881)	(\$265,068,279)	(\$267,841,376)
Total Estimated Net Effect on <u>All</u> State Funds	(\$109,881)	(\$265,068,279)	(\$267,841,376)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
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 5 pages.

FISCAL ANALYSIS

ASSUMPTION

SECTION 1-10% TAX CREDIT FOR EMPLOYERS

In a previous, similar proposal, officials of the **Department of Revenue (DOR)** state that in similar legislation, the Office of Administration estimated there would be 2,875 taxpayers eligible to take this credit. The Division of Taxation and Collections indicates they will need one Tax Processing Technician I for every 2,000 credits claimed and one Tax Processing Technician I for every 12,000 errors generated by this legislation. Therefore, the Department is requesting one Tax Processing Tech I to process these credits.

Officials from the **Office of Administration, Budget and Planning (BAP)** assume this tax credit would only be applicable to individual and corporate income taxes. As a result, the loss to General Revenue would not occur until FY 2002. According to the 1995 Statistical Abstract of the United States, 2% of employers with less than 100 employees and 7% of employers with 100 or more employees provide child care services. According to Missouri County Business Patterns there were 136,712 employers with less than 100 employees and 3,268 employers with 100 or more employees. Applying the child care percentages to these figures would result in 2,963 employers who could qualify for the tax credit. The average cost per employer for providing child care services in 1992 was \$84,475. A credit of up to 10% or \$8,447 per employer could be received. An annual inflation rate of 3% was assumed.

SECTION 2-FEDERAL CHILD CARE TAX CREDIT

DOR staff state that in similar legislation, the Office of Administration estimated there would be 116,000 taxpayers eligible to take this credit. Therefore, the Division of Taxation and Collection will be able to process this credit with existing staff and resources. However, if the number of returns claiming this credit exceeds 260,000, one temporary tax season employee will be needed. If the number of additional errors generated from this legislation exceeds 30,000, then one Tax Processing Technician I will be needed. One Tax Processing Technician I will be needed for every 3,000 additional pieces of correspondence received regarding this legislation. Any FTE will be requested through the normal budget process.

BAP staff state that according to the Spring 1998 Statistics of Income Table 2 Missourians received federal child care tax credits of \$49,172,000 in tax year 1996. A 3% growth rate was assumed.

SECTION 3-NON-EMPLOYED SPOUSE CHILD CARE TAX CREDIT

DOR staff state that in similar legislation, the Office of Administration estimated there would be 67,886 taxpayers eligible to take this credit. Therefore, the Division of Taxation and Collection will be able to process this credit with existing staff and resources. However, for every 130,000

ASSUMPTION (continued)

returns claiming this credit, the Division of Taxation will need one Tax Season Temporary employee, and if the number of additional errors generated from this legislation exceeds 30,000, then one Tax Processing Technician I will be needed. For every 3,000 additional pieces of correspondence received, one Tax Processing Technician I will be needed. Any FTE will be requested through the normal budget process.

BAP staff state that according to data from the 1997 Missouri Current Population Survey there are 67,886 spouses who are not employed that have children under 6 and receive no public assistance. With a tax credit of \$400 this yields a fiscal impact of (\$27,154,400). No growth factor was assumed.

SECTION 4-CHILD CARE SERVICES TAX CREDIT

DOR staff state the number of taxpayers eligible for this credit is unknown at this time. The Division of Taxation and Collections would request one temporary tax employee for every 130,000 returns with this credit and will request one FTE at this time. The Division would need one Tax Processing Technician for every 30,000 additional errors and one Tax Processing Technician for every 3,000 additional pieces of correspondence generated by this legislation.

According to DOR staff this legislation would require modifications to the income tax system. The Division of Taxation and Collections estimates these modifications, including programming changes, would require 1,084 hours of overtime at a cost of \$41,617. Modifications to the income tax return and schedules will 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 \$9,007 is requested for implementation costs and \$1,897 is requested for on-going costs.

BAP staff state that the 1998 Statistical Abstract table shows that approximately 50% of children under 6 are in daycare that must be paid for. According to the State Demographer there are 215,302 children under 3 years old, and 151,418 children who are 3 or 4 years old in Missouri.

For purposes of this fiscal note, **Oversight** has allowed the Department of Revenue 2 FTE, the corresponding expense and equipment, the requested overtime and the State Data Center charges.

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

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
GENERAL REVENUE FUND			
<u>Cost to General Revenue Fund</u>			
<u>Department of Revenue (DOR)</u>			
Personal Service(2 FTE)	(\$34,461)	(\$42,386)	(\$43,446)
Fringe Benefits	(\$11,486)	(\$13,034)	(\$14,481)
Expense and Equipment	(\$13,310)	(\$906)	(\$934)
Programming & State Data Center	<u>(\$50,624)</u>	<u>(\$1,954)</u>	<u>(\$2,013)</u>
Total <u>Cost</u> -Department of Revenue	(\$109,881)	(\$58,280)	(\$60,874)
<u>Loss to General Revenue Fund</u>			
10% Income Tax Credit for Employers	\$0	(\$33,636,159)	(\$34,645,244)
Income tax credit equal to Federal Child Care	\$0	(\$58,713,940)	(\$60,475,358)
Non-employed Spouse Child Care Tax Credit	\$0	(\$27,154,400)	(\$27,154,400)
Child Care Services Tax Credit	\$0	(\$145,505,500)	(\$145,505,500)
ESTIMATED NET EFFECT TO GENERAL REVENUE FUND	<u>(\$109,881)</u>	<u>(\$265,068,279)</u>	<u>(\$267,841,376)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

Small businesses which provide child care services for employees could be affected by this proposal

DESCRIPTION

TAX CREDIT FOR EMPLOYERS - This act authorizes qualified employers to take a tax credit for 10% of the amount spent on child care services for children of their employees. No tax credit will be allowed if the employer fails to provide subsidized child care services on a sliding scale, based on need, to at least 25% of the children served. Tax credits will also not be allowed if the employer discriminates among his or her employees or does not license the child care facility.

DESCRIPTION (continued)

FEDERAL CHILD CARE TAX CREDIT - Taxpayers who are eligible for a federal income tax credit for household and dependent care (Section 21 of the IRS Code) shall be entitled to a credit in an equal amount against their Missouri tax liability.

NON-EMPLOYED SPOUSE CHILD CARE TAX CREDIT - This act also allows individual taxpayers to take a tax credit of \$400 if the taxpayer receives no public assistance and the taxpayer's qualified spouse cares for their child or a child of one of them. Receipts should be filed with the taxpayer's income tax return. If the amount of tax credit taken exceeds the taxpayer's liability, the difference will not be refunded or carried over.

CHILD CARE SERVICES TAX CREDIT - A taxpayer may also qualify for a tax credit if the taxpayer has a child who is less than five years old and the taxpayer is temporarily unable to provide care because of the demands of a work or education schedule. The credit ranges from \$250 to \$1,000, depending on the age of the child and whether the care is full or part-time. This provision expires in 2025.

The provisions of this act apply to all taxable years after December 31, 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

Office of Administration
Division of Budget and Planning
Department of Revenue



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