

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 446-01  
Bill No.: SB 155  
Subject: Education, Higher; Treasurer, State; Higher Education Department; Revenue Department; Public Assistance; Business and Commerce; Taxation and Revenue - Income  
Type: Original  
Date: January 11, 2001

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Assembly Scholarship Program Fund	\$27,825,265	\$59,336,389	\$51,557,225
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>\$27,825,265</b>	<b>\$59,336,389</b>	<b>\$51,557,225</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>??</b>	<b>??</b>	<b>??</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 8 pages.

---

## **FISCAL ANALYSIS**

### ASSUMPTION

Officials from the **University of Missouri** assume the requirement to withhold taxes on nonresident earnings would necessitate additional personnel in each of the University's payroll offices and new systems at a minimum estimated annual cost of \$300,000. The University's response to a similar proposal in a prior year (SB 280, 1999) stated that proposal would result in no fiscal impact; therefore, the **Oversight Division** assumes the University could accomplish the provisions of the proposal with existing resources.

Officials from the **Secretary of State's Office (SOS)** assume as many as 22 new pages in the Code of State Regulations could be required. The estimated cost of a page in the Missouri Register is \$23. The estimated cost of a page in the Code of State Regulations is \$27. For any given rule, roughly half again as many pages are published in the Register as in the Code because cost statements, fiscal notes and the like are not repeated in the Code. These costs are estimates. The actual costs could be more or less than the numbers given. The impact of this legislation in future years is unknown and would depend on the frequency and length of rules filed, amended, rescinded or withdrawn. The SOS has estimated costs of \$1,353 in FY 2002 and unknown costs in FY 2003 and FY 2004. **Oversight** assumes SOS could absorb publication costs for publication of rules and has included no costs in the fiscal impact.

Officials from the **Department of Elementary and Secondary Education (DESE)** assume the proposal would result in no significant impact to DESE or local public school districts.

Officials from the **Department of Revenue (DOR)**, in a response to a similar proposal in the prior year (SB 687, 2000), estimated the Division of Taxation would process and collect the tax by either adding an apportionment schedule to the individual and corporate income tax returns or use a separate filing form and schedule for nonresident taxpayers. These options would require modifications to the individual and corporate tax systems. The Division of Taxation and Collections estimates these modifications, including programming changes, would require 1,384 hours of overtime at a cost of \$36,192 for the withholding tax system and 1,730 hours of overtime at a cost of \$52,021 for the income and corporate tax systems. In addition, State Data Center charges would increase due to the additional storage fields to be captured. Funding in the amount of \$11,258 would be requested for implementation costs and \$1,358 for ongoing costs.

ASSUMPTION (continued)

DOR officials stated there were approximately 238,000 nonresident income tax returns filed for the 1998 tax year. The Central Processing Bureau would need one temporary tax season employee (\$6,067) for every 60,000 returns received with a separate schedule to pre-edit. Also, one Tax Processing Technician I would be required for every 20,000 additional income tax errors and one Tax Processing Technician for every 12,000 additional corporate tax errors received from the proposal. The Tax Administration Bureau would request two Tax Processing Technicians to handle the additional correspondence and amended returns the proposal would create.

The Collection Bureau would need one Tax Collection Technician for every 50,000 returns impacted to handle the delinquencies. One Tax Processing Technician and one Clerk II would also be needed to process correspondence and file maintenance.

The **Oversight Division** has included five FTE in the fiscal impact section (1 Clerk I, 2 Tax Processing Technicians I, and 2 Temporary Tax Employees). In addition, Oversight has included DOR's overtime for programming of \$88,213 in FY 2000. The Oversight Division has excluded from the fiscal impact rental of floor space costs, since it is assumed DOR could use existing space for five FTE.

Officials from the **Office of Administration - Budget and Planning (OA-BP)** in a response to a similar proposal in the prior year (SB 687, 2000), estimated non-residents pay 8.6% of Missouri individual income tax. Based on that assumption, OA-BP assumes that non-residents earn 8.6% of Missouri wages and salaries. Based on the national wage and salary disbursements provided by Macroeconomic Advisers, OA-BP provided the following Missouri wage and salary disbursements (in millions):

<u>Calendar Year</u>	<u>MO Wage and Salary Disbursements</u>	<u>Percent Change</u>
1998 (Actual)	\$79,625	5.5
1999 (Estimate)	\$84,004	5.5
2000 (Estimate)	\$88,624	5.2
2001 (Estimate)	\$93,232	5.2
2002 (Estimate)	\$97,894	5.0
2003 (Estimate)	\$102,789	5.0

ASSUMPTION (continued)

The **Oversight Division** assumes that based on the language in the proposal, the tax would become effective on January 1, 2002 and apply to tax years beginning after December 31, 2001, and this revenue would be deposited in the General Assembly Scholarship Program Fund. The Oversight Division has prorated the tax year estimates from OA-BP into fiscal years, based on estimated collections in the applicable fiscal years.

Officials from the **Coordinating Board For Higher Education (CBHE)** in a response to a similar proposal in the prior year (SB 687, 2000), used 1997-1998 ACT student profile records files to roughly estimate that 2,107 students with incomes under \$25,000 and 4,150 students with incomes between \$25,000 and \$35,000 would be eligible for this scholarship program. This estimate includes students' self-reported GPA and incomes. ACT's income ranges do not fall precisely within scholarship guidelines. CBHE officials stated it is not possible to estimate the number of students with family income over \$35,000 who would be eligible due to large medical bills. Since the number is likely to be small, it is omitted from the calculations. The fiscal note is calculated assuming that all of the income-eligible students attend a four-year institution. This estimation method would yield the maximum liability to the state.

For purposes of calculating this fiscal note, it is assumed for FY 2002 that the group of 2,107 students would receive scholarships of \$3,321 and the group of 4,150 would receive half scholarships of about \$1,660 (average tuition and fees a public colleges and universities during FY 1998 was \$3,320.92). The effective date of the bill would be Jan. 1, 2002; therefore, scholarship costs are prorated for the six months remaining in FY 2002. Since Section 7 of the bill states that the state shall pay the scholarship costs of qualified students, it is assumed that any lag in receiving tax revenues would have to be made up from another source. It is also assumed that students would begin applying before the effective date in order to receive a second-semester scholarship. It is assumed that tuition would increase by 3% per year and attrition rates would be 15% between freshman and sophomore years, 10% between sophomore and junior years and 0% between junior and senior years. Using these assumptions, scholarship costs would be \$6,943,174 for FY 2002 (scholarship costs prorated for six months), \$26,462,995 for FY 2003, and \$38,534,716 for FY 2004.

In order to provide timely information about the scholarship program to students, \$25,000 would be necessary to print and distribute 100,000 brochures and letters about the program to middle-school students and their parents. An additional \$2,000 would be necessary for application forms in FY 2002; these costs will increase substantially each year as more forms will be needed each year through the fourth year of the program. Postage costs, estimated at \$4,000 for FY 2002 to send out informational materials and application forms, would also increase substantially each year.

ASSUMPTION (continued)

The CBHE's Grant and Scholarship Program Administration staff is already small and working to capacity on implementing several new scholarship programs. Since this bill would create a program with a funding level that is likely to be 50-75% of what is currently administered for grants and scholarships by CBHE, a Senior Associate position at an estimated salary of \$50,000 plus associated expense and equipment would be needed in FY 2002. This Senior Associate would be responsible for working with the Board to determine need calculations, to coordinate publicity and data collection, and to work with participating institutions in order to distribute funds accurately and smoothly. In addition, about 80 to 100 hours of a programmer's time would be required to set up the database of potential scholarship recipients. At \$50 per hour in consulting fees, it would cost about \$4,000 in initial programming costs for this program. Subsequent maintenance of the new database could be accomplished with existing staff. Other one-time data processing costs include \$2,000 for imaging of records and \$4,000 for storage of computer records.

The **Oversight Division** has included an Administrative Assistant for the CBHE at an estimated salary of \$26,317 plus associated expense and equipment costs in FY 2002.

**The proposal would result in an increase in Total State Revenues since earnings tax collections are included in the calculation of Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
<b>GENERAL ASSEMBLY SCHOLARSHIP PROGRAM FUND</b>			
<u>Income - Department of Revenue (DOR)</u>			
Earnings Tax on Nonresidents	\$35,078,540	\$85,942,122	\$90,240,402
<u>Cost - Department of Revenue (DOR)</u>			
Personal Service (6.7, 5 FTE)	(\$151,933)	(\$72,803)	(\$74,311)
Expense and Equipment	(\$46,720)	(\$22,387)	(\$22,850)
Fringe Benefits	<u>(\$35,477)</u>	<u>(\$1,512)</u>	<u>(\$1,557)</u>
Total cost - DOR	<u>(\$234,130)</u>	<u>(\$96,702)</u>	<u>(\$98,718)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
<u>Cost - Department of Higher Education (CBHE)</u>			
Personal Service (1 FTE)	(\$22,479)	(\$27,946)	(\$28,340)
Fringe Benefits	(\$6,913)	(\$8,502)	(\$8,715)
Expense and Equipment	(\$46,579)	(\$9,588)	(\$12,688)
Scholarships	<u>(\$6,943,174)</u>	<u>(\$26,462,995)</u>	<u>(\$38,534,716)</u>
Total cost - CBHE	<u>(\$7,019,145)</u>	<u>(\$26,509,031)</u>	<u>(\$38,584,459)</u>
Total cost	<u>(\$7,253,275)</u>	<u>(\$26,605,733)</u>	<u>(\$38,683,177)</u>
<b>ESTIMATED NET EFFECT ON GENERAL ASSEMBLY SCHOLARSHIP PROGRAM FUND</b>	<b><u>\$27,825,265</u></b>	<b><u>\$59,336,389</u></b>	<b><u>\$51,557,225</u></b>

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

FISCAL IMPACT - Small Business

Small businesses could be impacted by the cost of complying with required earnings tax withholding on nonresident employee earnings.

DESCRIPTION

This proposal establishes a General Assembly Scholarship program funded by a nonresident earnings tax. The proposal would impose an earnings tax on salaries, wages, commissions and other compensation earned by nonresidents for work done or services rendered or performed in this state. The earnings tax would be one percent per annum. An earnings tax would also be imposed on the net profits of associations, businesses and other activities conducted in the state by nonresidents.

Every employer maintaining an office or transacting business within the state and making payment of wages to a nonresident whose wages are subject to the earnings tax would deduct and withhold the tax from the payroll.

DESCRIPTION (Continued)

Income received from a corporation or association organized and operated exclusively for religious, charitable, scientific or educational purposes; a civic organization for the promotion of social welfare; and a club organized for pleasure, recreation or other nonprofitable purposes would be exempt from the earnings tax.

The Director of Revenue would make all rules and regulations for enforcement of the earnings tax.

The proposal would create the General Assembly Scholarship Program Fund. All earnings from the earnings tax on nonresidents would be deposited into the fund. The money would be used by CBHE for the General Assembly Scholarship Program, which is created by the proposal. Incidental fees and other fees at any public college or university in the state would be paid by the state on behalf of any student enrolling in a public college or university. The proposal would establish eligibility requirements, including financial need.

The CBHE would inform students of the assistance available; arrange for audits and applications and other operations; and a procedure for waiver through the 1997-98 academic year relating to required curriculum.

The CBHE would coordinate work study programs for students receiving tuition and fee payments.

The proposal would become effective January 1, 2002 and apply to taxable years beginning 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

University of Missouri  
Office of the Secretary of State  
Department of Elementary and Secondary Education  
Department of Revenue  
Office of Administration  
Department of Higher Education

NOT RESPONDING

Office of the State Treasurer

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is written in a cursive style with a large initial "J".

Jeanne Jarrett, CPA  
Director  
January 11, 2001