

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2420-01
Bill No.: SB 3
Subject: Revenue Dept.; Taxation and Revenue-Income
Type: Original
Date: September 5, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$33,687,672)	\$0	\$0
	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds	(\$33,687,672)	\$0	\$0

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 includes a deduction for the amount of the federal rebate allowed by section 6428 of the Internal Revenue Code, to the extent that the credit or advance refund of the credit would otherwise increase the Missouri taxable income of the taxpayer.

The DOR anticipates additional phone inquiries and walk-ins during tax season and will need 2 temporary tax season employees during January through April to assist in answering the income tax hotline, each handling 8,000-phone inquiries.

The DOR drafted a worksheet that would be used to calculate the federal income tax deduction with the changes in this legislation. The DOR anticipates using the normal federal tax edits and instructions with additional detail included to address the advanced credit. This will result in minimal impact to the DOR. However, if the DOR is required to key all of the information on the worksheet the DOR would have a much larger impact.

Officials of the **Office of Administration (COA) - Budget and Planning (BAP)** state this proposal will exclude the credit for the ten percent federal income bracket from reducing the federal income tax deduction on the Missouri individual income tax.

The IRS estimates that \$771 million in credits for the new 10% tax bracket will be issued to Missourians. Missouri tax data indicates that 16% of the individual income tax returns are over the deduction limit for federal income tax. The tax liability for these returns will not change due to the federal credit. A 4.5% average tax rate is assumed. BAP estimates the net effect on state funds to be \$29.1 million for FY02.

Based on tax year 1999 marginal tax calculations, **Oversight** assumes a 5.2% tax rate. Oversight estimates the fiscal impact of this proposal to be \$33.7 million.

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 - Dept. of Revenue</u>			
Personal Service (2 Temp. FTE)	(\$10,392)	\$0	\$0

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
<u>Loss to General Revenue Fund</u>			
Forgone revenue from including federal tax payment and credit deduction	(\$33,677,280)	\$0	\$0
ESTIMATED NET EFFECT TO GENERAL REVENUE FUND	<u>(\$33,687,672)</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2002 (10 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 allows a deduction for the credit for the ten percent income tax bracket, including any federal advance payment under Section 6428, to the extent the credit or advance refund of the credit would otherwise increase Missouri taxable income.

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
Office of Administration - Budget and Planning



Jeanne Jarrett, CPA
Director

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