

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4656-02
Bill No.: SB 1153
Subject: Taxation and Revenue - Income; Business and Commerce; Corporations and Shareholders; Partnerships and Partners
Type: Original
Date: March 4, 2002

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON STATE FUNDS | | | |
|---|------------|---------------------------------|---------------------------------|
| FUND AFFECTED | FY 2003 | FY 2004 | FY 2005 |
| General Revenue Fund | \$0 | \$271,800,000 to Unknown | \$271,800,000 to Unknown |
| | | | |
| Total Estimated Net Effect on <u>All</u> State Funds | \$0 | \$271,800,000 to UNKNOWN | \$271,800,000 to UNKNOWN |

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2003 | FY 2004 | FY 2005 |
| None | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--|------------|------------|------------|
| FUND AFFECTED | FY 2003 | FY 2004 | FY 2005 |
| Local Government | \$0 | \$0 | \$0 |

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** assume this legislation will decrease the number of lines keyed on the income tax return and the number of errors generated by taxpayers. DOR assumes it will also eliminate any deductions and credits administered by the DOR. Therefore, the DOR estimates this legislation will result in an unknown savings in FTE, E&E, printing and postage. This savings is expected to be over \$100,000.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume the proposed legislation should not result in additional costs or savings to BAP. BAP defers to the University of Missouri for the tax revenue estimate.

Officials from the **Office of Administration, Administrative Hearing Commission (AHC)** anticipates that this legislation will not significantly alter its caseload. However, if other similar bills also pass, there will be fiscal impact. If there are more cases, or more complex cases, there could be a fiscal impact.

Officials from the **University of Missouri, Research Center (UMRC)** assume the following:

Given the potential for this bill, UMRC did all the analyses with and without existing income tax credits.

Revised standard deduction amounts:

| | |
|----------------------------|-------------|
| Single, filing status A | 10,000 |
| Combined, surviving spouse | 20,000 |
| Head of household | 15,000 |
| Claimed as a dependent | 5,000 (new) |

UMRC assumes gross tax due is before all credits. This is UMRC's preferred measure of tax liability because it is impossible to simulate and forecast changes in DED and other state tax credits. It is also not usually an issue because most legislation does not alter credit amounts. This bill, however, does eliminate all credits. As a result, the 4 percent rate that produced a nearly equal tax liability to the current law, would produce a surplus if all of the credits were eliminated.

The revised simulation has a gross tax due (GTD) of \$3,818.1 million, an increase of \$31.8 million over the default simulation amount of \$3,786.3. This is due to the new standard for taxpayers claimed as a dependent on another return. However, if all credits were eliminated, this

ASSUMPTION (continued)

bill would generate an additional \$240 million. As a consequence, it would be possible to lower the tax rate to about 3.75 percent instead of the 4 percent levy. Alternatively, it would be possible to keep several of the current tax credits - especially the credit for taxes paid to another state which total \$175 million and the PTC which costs about \$21 million for Form MO-1040 filers. The remaining credits are primarily DED related and totaled nearly \$50 million in 2000.

Secretary of State (SOS) officials state this bill establishes the Missouri Individual Income Flat Tax Act. The Department of Revenue will promulgate rules to implement this bill. Based on experience with other divisions, the rules, regulations and forms issued by the Department of Revenue could require as many as 20 pages in the Code of State Regulations. For any given rule, roughly half again as many pages are published in the Missouri Register in the Code because cost statements, fiscal notes and the like are not repeated in Code. These costs are estimated at \$1,230 for FY03. The estimated cost of a page in the Missouri Register is \$23.00. The estimated cost of a page in the Code of State Regulations is \$27.00. The actual cost could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded or withdrawn.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Attorney General (AGO) officials assume this legislation will not fiscally impact their agency.

This legislation would increase Total State Revenues.

| <u>FISCAL IMPACT - State Government</u> | FY 2003 | FY 2004 | FY 2005 |
|---|------------|----------------|----------------|
| | (10 Mo.) | | |
| GENERAL REVENUE FUND | | | |
| Income - General Revenue | | | |
| Increase in Revenue from Flat Tax | \$0 | \$271,800,000 | \$271,800,000 |
| <u>Saving - Dept. of Revenue</u> | | | |
| Personal Service | \$0 | Unknown | Unknown |
| Fringe Benefits | \$0 | Unknown | Unknown |
| Expense and Equipment | <u>\$0</u> | <u>Unknown</u> | <u>Unknown</u> |
| Total Costs - DOR | \$0 | Unknown | Unknown |

FISCAL IMPACT - Local Government

FY 2003
(10 Mo.)

FY 2004

FY 2005

**ESTIMATED NET EFFECT ON
GENERAL REVENUE FUND**

| | | |
|------------|-------------------------|-------------------------|
| | <u>\$271,800,000 to</u> | <u>\$271,800,000 to</u> |
| <u>\$0</u> | <u>UNKNOWN</u> | <u>UNKNOWN</u> |

FISCAL IMPACT - Small Business

Small businesses could possibly have a reduction in paperwork.

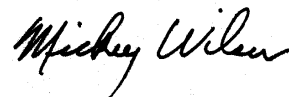
DESCRIPTION

This act creates the Missouri Individual Income Flat Tax Act. The act creates a flat tax on individual income of natural persons at a rate of four percent. The act also replaces most additions and subtractions from Missouri adjusted gross income with a larger personal deduction of \$10,000 per taxpayer (\$20,000 for a combined return, \$15,000 for a head of household return and \$20,000 for a surviving spouse return). The act provides both nonresident and partnership allocation and computation of Missouri individual income tax liability.

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
 Division of Budget and Planning
 Administrative Hearing Commission
University of Missouri
 Research Center
Secretary of State
Attorney General



Mickey Wilson, CPA
Acting Director

L.R. No. 4656-02
Bill No. SB 1153
Page 5 of 5
March 4, 2002

March 4, 2002

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