

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1980-03
Bill No.: HCS for HB 600
Subject: Taxation and Revenue - General, Income, Sales and Use
Type: Original
Date: March 14, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	\$19,110,408 to Unknown	\$19,183,350 to Unknown	\$19,182,232 to Unknown
Total Estimated Net Effect on General Revenue Fund*	\$19,110,408 to UNKNOWN	\$19,183,350 to UNKNOWN	\$19,182,232 to UNKNOWN

*Assumes Unknown revenues exceed Unknown costs.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Various State Funds	Unknown	Unknown	Unknown
Total Estimated Net Effect on Other State Funds	UNKNOWN	UNKNOWN	UNKNOWN

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	UNKNOWN	UNKNOWN	UNKNOWN

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Missouri Gaming Commission, Missouri House of Representatives, Office of the Governor, Missouri State Senate,** and the **Missouri Ethics Commission** assume this legislation makes several changes to the sections relating to taxation. These agencies assume this legislation would not fiscally impact their respective agencies.

Officials of the **Office of Administration (COA), Division of Budget and Planning** and the **Division of Purchasing** assume this bill changes a variety of tax laws. The revenue impacts are best estimated by the Department of Revenue and other agencies directly affected. The provision of the bill that requires each state department to ensure all employees are in compliance with all state tax laws could result in some cost to the COA.

COA assumes this legislation would apply to all contracts awarded by the Division of Purchasing. COA requests one additional FTE – a Buyer III position to handle the additional workload created by this proposal and to ensure all additional requirements are met.

Oversight has, for fiscal note purposes only, changed the starting salary for the Buyer III position to correspond to the second step above minimum for comparable positions in the state’s merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

ASSUMPTION (continued)

State Treasurer (STO) officials assume this proposal makes various changes relating to taxation:

- Makes lottery and gaming winnings in the state part of Missouri adjusted gross income for tax purposes.
- Allows Office of the State Courts Administrator to participate in the debt offset program on behalf of the court of a political subdivision.
- Creates an escrow account within the treasury (Section 488.5028.5) for the deposit of income tax refunds intercepted. The STO assumes this is the debt offset escrow fund already established within the treasury.
- Adds language that business licenses and permits may not be renewed unless verification from DOR is received that state tax returns have been filed and all state taxes, interest and penalties have been paid.
- Requires that all employees of the state, and state contractors file state tax returns and pay all taxes owed.
- Requires that the tax status of all employees of the state, all members of the general assembly, all elected officials, every elected or appointed member of the judicial branch have their tax status reviewed annually to ensure they have filed state tax returns and paid all taxes owed.
- Requires that no professional license or permit pursuant to Chapter 324 - 326 be renewed without verification from DOR that state tax returns have been filed and all state taxes have been paid.
- Allows DOR to prescribe the use of electronic fund payment systems for withholding taxes for quarter-monthly filers.

No impact to the STO.

Department of Conservation (MDC) officials state this proposal makes several changes to several sections relating to taxation. This proposal could have a fiscal impact on MDC because of administrative costs in complying. MDC assumes the impact would be minimal.

ASSUMPTION (continued)

Officials from the **Department of Transportation (MoDOT)** assume this legislation requires every vendor or affiliate of a vendor seeking to contract to provide goods and services to the State of Missouri to collect and pay all sales and use taxes, modifies items used to calculate the Missouri nonresident adjusted gross income, specifies that articles used as trade-in to offset sales tax must have had sales tax paid or been exempted from tax, allows the state courts administer to reduce an individuals income tax refund by any outstanding court debts greater that \$25, states that a business license or permit cannot be issued or renewed unless the applicant has filed all state tax returns and all taxes paid, states that State of Missouri employees must file and pay all state taxes as a condition of employment, and states that no person shall receive or renew professional licenses unless all state tax returns have been filed and all state income taxes paid.

MoDOT assumes no fiscal impact for Section 34.040 related to vendor or affiliates of a vendor required to be current on all payments of sales and use taxes, Section 143.181 related to the adjusted gross income calculations, and Section 488.5028 related to outstanding court debts. Section 144.025 would create a positive fiscal impact to revenue from the increased sales and use tax; however, MoDOT is unable to provide an estimate for this section. Therefore, MoDOT must rely upon the Department of Revenue's response.

Additionally, Sections 1, 2, and 3 may cause additional workloads to existing staff to verify if employees and license/permit applicants are current in the filing of their Missouri tax forms and all taxes are paid. However, at this time, MoDOT is assuming that this workload can be absorbed by existing staff due to the Department of Revenue's new database (in Section 2.2). However, if the number of professional/business permits/licenses requests is too large, additional staff may be required. This is dependent on which licenses and permits are covered by Section 1 and Section 3.

Officials from the **Missouri Lottery Commission (LOT)** assume this proposed legislation does not have a fiscal impact on the LOT. The LOT currently withholds Missouri state taxes from winnings over \$599 from out-of-state residents.

Officials from the **State Courts Administrator (CTS)** state there are currently \$23.4 million unpaid fines, fees and costs on criminal cases. However, CTS has no way of knowing how many fines, fees and costs will be collected as a result of refund offsets. CTS assumes since the interest earned on the funds realized is to be used to pay the offset administrative costs of this proposal, then no costs would be incurred by CTS for this proposal.

ASSUMPTION (continued)

Officials from the **Attorney General's Office (AGO)** assume this proposal would prohibit the Office of Administration from entering into contracts with businesses that do not collect taxes pursuant to Chapter 144. AGO assumes the Office of Administration and the Department of Revenue would adjust contracts and monitor compliance appropriately, but that the proposal would result in additional litigation from those seeking to do business with the state. The proposal also effectively requires agencies to terminate employees for non-payment of taxes. AGO assumes this would result in additional employment litigation. The proposal also prohibits the professional boards from issuing or renewing licenses to individuals with unpaid taxes. Again, AGO assumes this would result in additional licensing litigation. Finally, various provisions of the bill could result in additional collection litigation on behalf of DOR. Based on the assumption that the vast majority of contractors, state employees and licensees pay their taxes, AGO assumes costs could be absorbed with existing resources; but because a significant increase in activity in any of these areas would require additional staffing, cost of this proposal is UNKNOWN (potentially in excess of \$100,000).

Officials of the **Department of Revenue (DOR)** state this legislation makes the following changes:

Section 34.040 (Tax Clearances) - Requires every vendor or affiliate of a vendor seeking to contract to provide goods and services to the State of Missouri to collect and properly pay all sales and use taxes;

Section 143.124.10 (Pension Exemption) - Clarifies that pension benefits must be included in federal adjusted gross income in order to deduct those benefits through the pension exemption. Currently taxpayers that have railroad retirement benefits can subtract their retirement benefits from their adjusted gross income on their Missouri income tax return and also deduct those benefits again through the pension exemption. This legislation will eliminate deducting the benefits twice;

Section 143.181 (Gambling Winnings) - Requires all lottery and other gaming winnings to be included in Missouri nonresident adjusted gross income when the winnings are from a Missouri source;

Section 143.225.9 (Electronic Payments) - Allows the Director to authorize electronic payments for businesses required to submit their withholding tax payments quarter-monthly (weekly). Electronic payments speed up the processing time and improve the state's cash flow and interest earnings;

ASSUMPTION (continued)

Section 144.025 (Ag for Autos) – Specifies that an article used in a trade-in to offset sales tax must have had tax paid or been exempted from tax. Articles used for trade-in must be owned by the person trading them in;

Section 488.5028.1 – Authorizes debt offsets of income tax refunds for delinquencies in excess of \$25 to the Office of State Court Administrators;

Section 1 (Tax Clearances) - Requires a tax clearance from the Department of Revenue prior to the issuance or renewal of any local government business license;

Section 2 (Tax Clearances) - Requires as a condition of employment with the executive branch of state government that all state taxes due be filed and paid by the employee; and

Section 3 (Tax Clearances) - Requires a tax clearance from the Department of Revenue prior to the issuance or renewal of any professional license granted by the state.

Administrative Impact:

Section 34.040 (Tax Clearances) – For several years, DOR has provided lists to the Office of Administration of noncompliant vendors. Therefore, this will have no additional impact to DOR.

Section 143.181 (Gambling Winnings) – This legislation will have no additional impact to DOR.

Section 143.124.10 (Pension Exemption) -- DOR assumes no additional impact.

Section 143.225.9 (Electronic Payments) -- DOR is currently set up to receive electronic payments. Therefore, there is no administrative impact to DOR.

Section 144.025 (Ag for Autos) – No administrative impact.

Section 488.5028.1 (Debt Offsets) – MINITS programming will be needed to allow for the electronic match of the tapes and for the production of the letters. DOR estimates that 346 hours of programming will be needed at a cost of \$11,543. DOR will need postage for the mailing of the letters, but the costs are UNKNOWN.

Sections 1-3 (Tax Clearances) – This legislation will require a tax clearance from DOR. DOR intends to work with the other state agencies in order to provide a list of delinquent employees,

ASSUMPTION (continued)

business license applicants or professional licenses applicants through a tape match. DOR assumes the other state departments will provide DOR with a list of names and social security numbers of individuals, and DOR will run those names against the income tax system in order to provide a list of delinquent taxpayers. However, for new employees or professional license applicants, DOR intends on providing a new internet based system that will allow other agencies and local governments to verify quickly that an applicant has complied with all state tax filings and payments. DOR estimates this system will include a MINITS Interface (3 programmers for 3 months or \$51,942) and a WEB-Based Application (5 weeks of programming or 200 hours - \$6,672).

Revenue Impact:

Section 34.040 (Tax Clearances) – DOR anticipates an UNKNOWN increase in revenues.

Section 143.124.10: In a previous fiscal note filed in March 2000 (SB 992, LR 4415-01), Oversight estimated the revenue impact at \$1.6 million. Therefore, DOR assumes the revenue impact somewhere between \$1.6 to \$2 million.

Section 143.181 (Gambling Winnings) – According to the gaming commission, there is \$110 million of nonresident casino winnings paid out in Missouri. Therefore, with a 6% tax rate, the increase in revenues totals \$6.6 million.

Section 144.025 (Ag for Autos) - DOR anticipates an UNKNOWN increase in revenues.

Section 488.5028.1 (Debt Offsets) – DOR assumes the State Court Administrators Office will supply the revenue impact.

Section 1 (Tax Clearances) - DOR anticipates an UNKNOWN increase in revenues.

Section 2 (Tax Clearances) - DOR anticipates an UNKNOWN increase in revenues.

Section 3 (Tax Clearances) – Michigan, who issues 700,000 professional licenses, began requiring compliance with professional licenses and reportedly brought in \$20 million. DOR assumes that because Missouri issues half of the licenses Michigan does (approximately 350,000), then Missouri would generate approximately half of the revenue (\$10 million).

ASSUMPTION (continued)

Section 143.225.9: If mandated electronic withholding tax quarter-monthly payments were implemented, the Cashiering Section estimates payments would be deposited into the bank two days sooner. The state would earn an additional \$1,011,478 in interest annually based on the following assumptions:

Withholding Quarter-Monthly:

Annual # W/H qtr-monthly due dates	48
# days processing	x 3
Total Days	144
FY02 W/H qtr-monthly collections	\$2,326,721,487
Deposit days	/ 144
Ave. daily bank deposit	\$ 16,157,788
Annual rate of return	x 3.13% (ave. FY02)
# days faster deposit	x <u>2</u>
Additional Interest Eamed Annually	\$ 1,011,478

Officials of the **Office of Administration, Division of Budget and Planning (BAP)** did not respond to our fiscal note request for this substitute. However in response to SB 992 from the 2000 session, BAP stated that currently taxpayers that have Railroad Retirement Benefits can subtract their retirement benefits from their adjusted gross income on their Missouri income tax return. These same taxpayers may currently also take the pension exemption on the Missouri income tax return. This proposal does not allow the pension exemption for Railroad Retirement Benefits, because they are already excluded from adjusted gross income. This would eliminate deducting the benefits twice.

According to Table 545 in the 1999 Statistical Abstract, Railroad Retirement Benefits are \$8 billion nationally. BAP staff assumed that 1.9% of this total is paid to Missourians. A 4.5% marginal tax rate was assumed.

In Senate Bill 922, **Oversight** stated that according to the actuary section of the Railroad Retirement Board, there were approximately 315,100 railroad retirees nationally. Dividing \$8 billion by the 315,100 retirees yields an average pension of \$25,400 annually. **Oversight** assumes that 1.9% of the 315,100 retirees (5,987) are located in Missouri. The maximum amount of the pension exemption is \$6,000. **Oversight** has calculated the revenue impact of this proposal by multiplying the \$6,000 by 5,987 retirees and assuming a 4.5% marginal tax rate. This would yield a savings of \$1,616,490 annually by eliminating the ability to deduct Railroad Retirement Benefits twice.

ASSUMPTION (continued)

Oversight assumes DOR could have a slight decrease in workload, however the decrease is not expected to be enough to show a cost savings. **Oversight** assumes the revenue impact for the pension exemption estimate would have grown only slightly and will show the revenue impact for this portion of the proposal as \$1.6 million, annually.

Officials of the **Department of Economic Development (DED)** assume the bill addresses some sales and use tax provisions which would have no impact on DED other than DED would have to insure that vendors used for purchasing of goods or services had paid all tax due to the state. DED assumes that DOR or COA would provide information to insure that vendors were or were not in compliance. Section 2 deals with checking once per year to see if state employees have paid applicable individual income tax. Again, DED assumes that DOR will check a list of employees to see if they are in compliance. DED would have to rely on DOR to work out issues identified in the annual check on employees.

Since most checking on businesses and individuals would have to be done by other state entities, DED assumes no impact. If this interpretation is incorrect, DED may need to request FTE and/or expenses at a later date.

Officials of the **Department of Economic Development - Division of Professional Registration** assume this legislative proposal requires the Division of Professional Registration to receive verification from the Department of Revenue that state tax returns have been filed and that all state taxes, including any interest and penalties, have been paid prior to issuing or renewing a professional license or permit.

Pursuant to conversations with the Department of Revenue, DED assumes that the Division of Professional Registration will provide the Department of Revenue with a listing of all licensees for each renewal cycle. DED assumes that this will be done by a computerized tape in which DOR can match by social security number for each licensee. DED assumes that for initial licensure that the Division of Professional Registration will utilize DOR's internet site to verify the applicants tax status. Based on these assumptions, DED is of the opinion that this legislation in its present form, has no fiscal impact to the Division of Professional Registration. However, if the Division's computer system is not compatible with DOR or if additional computer equipment is needed in order to link, additional appropriation authority may be required in order to implement this proposal. Note: The Division of Professional Registration currently has over 350,000 licensees.

Officials from the **Department of Agriculture** did not respond to our fiscal note request.

This legislation will increase Total State Revenue.

FISCAL IMPACT - State Government

FY 2004

FY 2005

FY 2006

GENERAL REVENUE FUND

Income - General Revenue

Increase in tax compliance from tax clearances (Sec 34.040)	Unknown	Unknown	Unknown
Reduction in pension exemptions	\$1,616,499	\$1,616,490	\$1,616,490
Electronic withholding payments	\$1,011,478	\$1,011,478	\$1,011,478
Nonresident casino winnings	\$6,600,000	\$6,600,000	\$6,600,000
Reduction in Motor Vehicle trade-ins	Unknown	Unknown	Unknown
Fines and costs on criminal cases offset	Unknown	Unknown	Unknown
Increase in tax compliance from tax clearances to issue/renew bus licenses	Unknown	Unknown	Unknown
Increase in tax compliance from tax clearances on employees	Unknown	Unknown	Unknown
Increase in tax compliance from tax clearances to issue/renew prof licenses	<u>\$10,000,000</u>	<u>\$10,000,000</u>	<u>\$10,000,000</u>
Total Income - GR	\$19,227,977 to UNKNOWN	\$19,227,977 to UNKNOWN	\$19,227,977 to UNKNOWN

Cost - Department of Revenue

Programming (debt offsets)	(\$11,543)	\$0	\$0
Postage (debt offsets)	(Unknown)	(Unknown)	(Unknown)
Programming (tax clearances)	(\$51,942)	\$0	\$0
WEB-Based Application	<u>(\$6,672)</u>	<u>\$0</u>	<u>\$0</u>
Total Cost - DOR	(\$70,127 to Unknown)	(Unknown)	(Unknown)

Cost - Office of Administration

Personal Service	(\$30,780)	(\$31,550)	(\$32,339)
Fringe Benefits	(\$12,457)	(\$12,768)	(\$13,088)
Expense and Equipment	<u>(\$4,205)</u>	<u>(\$309)</u>	<u>(\$318)</u>
Total Cost - COA	(\$47,442)	(\$44,627)	(\$45,745)

Cost - Attorney General

Litigation expense (tax clearances)	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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DESCRIPTION

This proposal makes various changes related to taxation. The bill:

- (1) Requires every vendor or affiliate of a vendor seeking to contract to provide goods and services to the State of Missouri to collect and properly pay all sales and use taxes;
- (2) Requires any amount of pension, annuity, or retirement allowance deducted for state individual income tax purposes to be included in the taxpayer's federal adjusted gross income and not otherwise deducted in the calculation of Missouri taxable income;
- (3) Requires all lottery and other gaming winnings to be included in Missouri nonresident adjusted gross income when the winnings are from a Missouri source;
- (4) Allows the Director of Revenue to require the payment of withholding taxes on quarter-monthly filers through an electronic funds payment system;
- (5) Includes court costs in excess of \$25 related to the State Supreme Court, Court of Appeals, or any circuit court of Missouri as amounts that can be offset against a refund of taxes owed to a taxpayer;
- (6) Adds additional requirements on any article being traded-in for the purpose of receiving a sales or use tax credit against a new article being purchased. The article being traded-in must have originally had sales or use tax paid on it or have been specifically exempted from sales and use taxes by law. In the case of motor vehicles, trailers, boats, or outboard motors the same will only be allowed as a trade-in. Grain and livestock raised or produced by a purchaser may be traded-in on a motor vehicle or trailer used primarily for agricultural use by the purchaser;
- (7) Requires a tax clearance from the Department of Revenue prior to the issuance or renewal of any local government business license;
- (8) Requires as a condition of employment with the state government that all state taxes due be filed and paid by the employee;
- (9) Requires all state taxes due to be paid by members of the General Assembly, statewide elected officials, and members of the judiciary; and
- (10) Requires a tax clearance from the Department of Revenue prior to the issuance or renewal of any professional license granted by the state.

The substitute contains an emergency clause.

DESCRIPTION (continued)

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
 Division of Purchasing
State Treasurer
Department of Conservation
Department of Transportation
Missouri Gaming Commission
Missouri Lottery Commission
State Courts Administrator
Missouri House of Representatives
Attorney General's Office
Missouri Ethics Commission
Missouri State Senate
Office of the Governor
Department of Economic Development
 Division of Professional Registration

NOT RESPONDING: Department of Agriculture



MICKEY WILSON, CPA
DIRECTOR
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