

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4140-01  
Bill No.: HB 1030  
Subject: Taxation and Revenue - General; Revenue Dept.  
Type: Original  
Date: February 7, 2012

Bill Summary: This proposal would create a tax amnesty program.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	More than \$100,000	\$0	\$0
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>More than \$100,000</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Conservation Commission	Unknown	\$0	\$0
Parks, and Soil and Water	Unknown	\$0	\$0
<b>Total Estimated Net Effect on Other State Funds</b>	<b>Unknown</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 11 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume this proposal would not result in additional costs or savings to their organization.

BAP officials stated that this proposal would create an amnesty from all accrued penalties and interest on unpaid taxes, if taxes are appropriately filed and paid during a period from August 1, 2012, to October 30, 2012. This proposal appears to be similar to the amnesty program in FY 2003.

Taxpayers participating in this program would not be allowed to renew drivers' licenses or license plate until the liability is paid.

BAP officials estimated that \$75 million in revenues would be collected, including \$50 million already identified from DOR investigations completed or in process. The \$50 million is part of the revenue base when the consensus revenue estimates are determined for FY 2013 and future years. BAP estimated that the remaining \$25 million of collections would be "new" revenues from previously unidentified sources. Of those collections, an estimated 84.2% would be General Revenue, based on the results of the amnesty program in FY 2003. The BAP estimates are based on income and sales tax liabilities; a small amount of additional funds may be also collected if other taxes, such as tobacco taxes, are included in the amnesty program.

ASSUMPTION (continued)

Further, BAP assumes that the proposed amnesty would persuade taxpayers to settle accounts in a more timely fashion than is typical. Based on data provided by the Department of Revenue, BAP estimates that 27% of liabilities collected are settled within nine months of being identified by the DOR, with others taking up to 36 months or more to settle. BAP assumes this amnesty program would bring all of these payments into the three-month amnesty window, which occurs about nine months after the end of tax year 2011. These collections would be received in FY 2013, at the expense of later years.

BAP assumes this proposal would increase General Revenue Fund collections by \$51.8 million in FY 2013, with impacts on TSR and later years. The following tables show the BAP estimate of the proposal's impact on the timing of collections.

Total State Revenue	Total	2013	2014	Later years
Amnesty	\$75.0	\$75.0	\$0.0	\$0.0
Normal	(\$50.0)	(\$13.6)	(\$22.8)	(\$13.6)
Net	\$25.0	\$61.4	(\$22.8)	(\$13.6)

General Revenue	Total	2013	2014	Later years
Amnesty	\$63.2	\$63.2	\$0.0	\$0.0
Normal	(\$42.1)	(\$11.4)	(\$19.2)	(\$11.5)
Net	\$21.1	\$51.8	(\$19.2)	(\$11.5)

Officials from the **Department of Elementary and Secondary Education** deferred to the Department of Revenue for an estimate of the fiscal impact of this proposal.

Officials from **Clay County** responded to our request for information but did not provide an estimate of the fiscal impact to their organization.

Officials from the **City of Kansas City** assume this proposal would have no fiscal impact to their organization.

Officials from the **Parkway School District** assume there would be the potential for a loss of revenue to their organization but were not able to provide an estimate of that loss.

Officials from the **Department of Revenue** (DOR) assume this proposal would create an amnesty from the assessment or payment of penalties, additions, and interest imposed on unpaid taxes due on or before December 31, 2011.

- \* Amnesty would not extend to any taxpayer who at the time of payment is a party to any criminal investigation or to any civil or criminal litigation.
- \* Upon application by the taxpayer, DOR would not seek to collect any penalty, addition to tax, or interest that may be applicable.
- \* Amnesty would be granted only to those taxpayers who have applied for amnesty, have filed a tax return for each taxable period for which amnesty is requested, have paid the entire balance due within sixty days of approval by DOR, and agree to comply with state tax laws for the next eight years from the date of the agreement.
- \* If the taxpayer fails to comply with state tax laws at any time during the eight years following the date of the agreement, all penalties, additions to tax, and interest that were waived under the amnesty agreement would become due and payable immediately.
- \* If a taxpayer elects to participate in the amnesty program, that election would constitute an express and absolute relinquishment of all administrative and judicial rights of appeal. No tax payment received under this section would be eligible for refund or credit.
- \* Nothing in the proposal could be interpreted to prevent DOR from adjusting a taxpayer's return as a result of a state or federal audit.

ASSUMPTION (continued)

- \* All payments received as a result of the amnesty program, other than revenues earmarked by the Constitution of Missouri would be deposited in the General Revenue Fund.
  
- \* A taxpayer participating in the amnesty program could not be issued or allowed to renew any driver's license or motor vehicle license plates until the taxpayer has paid the entire balance due.

DOR could create rules to implement the provisions of this section. This proposal would become effective on July 1, 2012, and expire on December 31, 2015. The proposal includes an emergency clause to become effective immediately on signing by the Governor.

Administrative impact

DOR officials assumed, based on 2011 estimates, that there are approximately 490,000 known taxpayers eligible for amnesty and estimated that postage, envelopes and printing would cost (490,000 taxpayers x \$.505) = \$247,450. In addition, DOR officials assume that the Taxation Division would incur costs totaling approximately \$350,000 for the following:

* Overtime to review correspondence-	\$100,000
* Overtime to review errors on returns-	\$73,000
* Staff time to key returns and process payments-	\$145,000
* Staff time for customer contacts-	\$30,000

DOR officials also recommended an advertising budget of at least \$400,000.

In the alternative, the state could contract with a private vendor to administer the amnesty program. Contracting with a vendor would avoid the direct costs to the department, and vendor payment could be based on the percentage of the debts collected. A number of states and other political subdivisions have contracted with private vendors to run their amnesty programs and have seen very good results.

**Oversight** will indicate unknown costs in excess of \$100,000 in FY 2013 for the Department of Revenue to administer the amnesty program.

ASSUMPTION (continued)

IT impact

Implementing the driver's license and motor vehicle provisions would require a significant amount of changes to the department's IT systems. DOR officials included an estimate of the IT cost to implement this proposal of \$118,296 based on 4,464 hours of programming for ITSD/DOR to make changes to various tax systems.

**Oversight** assumes ITSD/DOR is provided with core funding to handle a certain amount of activity each year. Oversight further assumes ITSD/DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, ITSD/DOR could request funding through the budget process.

Fiscal impact

DOR officials estimate this legislation could have a net positive impact of \$51.8 million for the General Revenue Fund and \$61.4 million in Total State Revenue in FY 2013.

DOR officials stated that a total of \$75 million (\$63 million General Revenue) may be received through amnesty, but \$50 million (\$42 million General Revenue) would have been identified as outstanding liabilities. DOR assumes that an overwhelming majority of the \$50 million, plus interest and penalties, could be collected without amnesty. Because DOR has processes and personnel in place to collect delinquent taxes, the \$50 million is taken into consideration when the consensus revenue estimates are determined for FY 2013 and future years.

**Oversight** has analyzed the DOR estimates of additional tax collections, but we are not able to determine the reasonableness of those estimates since we do not have access to comparable information for similar programs, nor are we able to review any of the supporting documentation for those estimates since the information is confidential. Accordingly, Oversight will indicate unknown additional revenues for the state General Revenue Fund in excess of \$100,000, in addition to the recovery of program costs, for FY 2013, FY 2014, and FY 2015.

ASSUMPTION (continued)

**Oversight** notes that this proposal would require DOR to deposit all collections from the amnesty program, except for those which are earmarked by the Missouri Constitution, into the state General Revenue Fund. Accordingly, Oversight will indicate an unknown positive fiscal impact from this proposal in FY 2013 for the Conservation Commission Fund and the Parks and Soils Sales Tax Funds. Other state funds and local governments which would receive additional tax collections under existing provisions would not have a fiscal impact from the amnesty program.

**Oversight** also notes that this proposal would authorize DOR to waive penalties, interest, and additions to tax which would be applied and collected under existing provisions regarding delinquent tax administration. Oversight assumes the additional taxes collected would exceed the penalties, interest and additional taxes which would have been collected, and for fiscal note purposes only will indicate an unknown loss of revenue in the General Revenue Fund, the Conservation Commission Fund, and the Parks and Soils Tax Funds in FY 2013 for the potential penalties, interest, and tax additions waived.

According to DOR officials, the motor vehicle and driver's license provisions could result in additional collections. In the 2002 tax amnesty, the department had 296 individual income taxpayers apply for amnesty, but fail to pay the balance in full. The average paid by individuals that took advantage of amnesty was approximately \$1,200. The estimated tax owed for these individuals would be \$355,000. DOR officials assume the new motor vehicle and driver license provisions would allow the department to collect some portion of the \$355,000 estimate.

However, DOR officials noted that there could be a reduction in Motor Vehicle Renewal revenue. If some portion of the 296 taxpayers noted above, failed to take advantage of amnesty and fail to pay their vehicle registration fees, the state would lose approximately \$29.19 for every registration fee not paid. If each of the 296 had an average of 1.5 vehicles that needed to be registered during the amnesty period, the total loss could equal up to \$12,960.

**Oversight** assumes that any reduction in drivers licence and motor vehicle registration fees would be negligible.

<u>FISCAL IMPACT - State Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
<b>GENERAL REVENUE FUND</b>			
<u>Additional revenue</u> - Tax amnesty program	<u>More than \$100,000</u>	<u>\$0</u>	<u>\$0</u>
<u>Cost</u> - Department of Revenue - amnesty program	<u>More than \$100,000</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenue reduction</u> - interest, penalties, and additions to tax waived.	<u>(Unknown)</u>	<u>\$0</u>	<u>\$0</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>More than \$100,000</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
<b>CONSERVATION COMMISSION FUND</b>			
<u>Additional Revenue</u> - Tax amnesty program	<u>Unknown</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenue reduction</u> - interest, penalties, and additions to tax waived.	<u>(Unknown)</u>	<u>\$0</u>	<u>\$0</u>
<b>ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND</b>	<b><u>Unknown</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

**PARKS, AND SOIL AND WATER FUNDS**

<u>Additional Revenue</u> - Tax amnesty program	<u>Unknown</u>	<u>\$0</u>	<u>\$0</u>
Revenue reduction - interest, penalties, and additions to tax waived.	<u>(Unknown)</u>	<u>\$0</u>	<u>\$0</u>
<b>ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUNDS</b>	<b><u>Unknown</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which have delinquent taxes.

FISCAL DESCRIPTION

This proposal would create a tax amnesty program.

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 the Secretary of State  
Office of Administration  
    Division of Budget and Planning  
Department of Elementary and Secondary Education  
Department of Revenue  
Joint Committee on Administrative Rules  
Clay County  
City of Kansas City  
Parkway School District



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