COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4150-02
Bill No.: HB 1542
Subject: Taxation and Revenue - Income; Revenue Dept
Type: Original
Date: February 15, 2012

Bill Summary: This proposal would provide additional collection procedures for the Department of Revenue, enact a tax amnesty, and would make several changes to personal income tax provisions.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	($57,035,000) to Unknown	($57,035,000) to Unknown	($57,035,000) to Unknown
Total Estimated Net Effect on General Revenue Fund	**($57,035,000) to Unknown**	**($57,035,000) to Unknown**	**($57,035,000) to Unknown**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 19 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Conservation Commission	Unknown	Unknown	Unknown
Parks, and Soil and Water	Unknown	Unknown	Unknown
School District Trust	Unknown	Unknown	Unknown
Total Estimated Net Effect on Other State Funds	**Unknown**	**Unknown**	**Unknown**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

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

☐ 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).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Local Government	**Unknown**	**Unknown**	**Unknown**

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 the proposed legislation would not result in additional costs or savings to their organization.

ASSUMPTION (continued)

Various Sections, DOR Collections & Enforcement

The proposal would increase General and Total State Revenue by improving tax collection procedures on delinquent taxes and/or debt owed to the state. It would also allow the Department of Revenue to retain 1% of the amount of any local sales or use tax collected to cover their costs. The proposal would also give the Department of Revenue (DOR) authority to collect debt on behalf of other state agencies, and would allow DOR to send out certain mailings by first class mail instead of certified mail.

The proposal would allow DOR and the Office of Administration to enter into a reciprocal collection and offset program with the federal government, and it would allow DOR to issue administrative garnishments.

BAP deferred to DOR for estimates of the costs and increased collections for these provisions.

Tax Amnesty

The 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 the 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. That $50 million is part of the revenue base when the consensus revenue estimates are determined for FY 2013 and future years. BAP officials estimate that $25 million of this revenue would be "new" revenues from previously unidentified sources. An estimated 84.2% of those collections would be for the General Revenue Fund, based on the results of the amnesty program in FY 2003. These estimates are based on income and sales tax liabilities; a small amount of additional funds may be collected if other taxes administered by DOR, such as tobacco taxes, are included in the amnesty.

ASSUMPTION (continued)

Further, BAP assumed that the proposed amnesty would persuade taxpayers to settle accounts in a more timely fashion than is typical. Based on data provided by DOR, BAP estimated that 27% of liabilities collected would be 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 would bring all of these payments into the three-month amnesty window, which occurs about nine months after the end of tax year 2011. This would have an additional positive cash flow impact in FY 2013, at the expense of payments that would have otherwise been received in later years.

Personal Income Tax Rate Changes

This proposal would makes several changes to personal income tax rates. BAP has estimated each impact separately, but the interplay between the deduction and rates may alter the impacts in unknown ways.

The proposal would change the personal income tax rates, beginning 1/1/12. If the Missouri taxable income is not over nine thousand dollars, the tax rate would be four percent of Missouri taxable income; if the Missouri taxable income is nine thousand dollars or more, the tax rate would be five and nine-tenths percent of Missouri taxable income.

Based on information provided by DOR and tax year 2010 data, the proposed tax rate changes could generate an additional $4.274 billion in General and Total State Revenues.

Head of Household Status

Beginning January 1, 2012, any taxpayer with a federal filing status of head of household would be required to use the single filing status on the state income tax return. This would reduce the standard deduction for these taxpayers from $8,500 to $5,800 and the exemption amount for those taxpayers from $3,500 to $3,000. That would increase taxable income for those filers by $3,200. According to the 2010 tax data summary reports supplied to BAP by the University of Missouri (MU), there were 281,327 resident who filed as head of household for tax year 2010. This would lead to an increase in taxable income of $900.2 million, and at the 5.9% proposed rate, would increase General and Total State Revenues by $53.1 million. However, these filers may overlap with the single filers discussed in the subsequent section, which would impact this calculation.

ASSUMPTION (continued)

Personal and Dependent Exemptions

Beginning January 1, 2012, the proposal would increases the personal exemption from $2,100 to $3,000 for the taxpayer and spouse. According to the 2010 tax data summary reports supplied to BAP by MU, there were 3,454,945 resident taxpayer exemptions claimed for tax year 2010. Increasing this deduction by $900 would lead to an additional deduction of $3.109 billion from taxable income. At the 5.9% proposed rate, this provision would reduce General and Total State Revenues by $183.5 million. However, these filers may overlap with the head of household filers, which would impact this calculation.

Beginning January 1, 2012, the proposal would increase the dependency exemption from $1,200 to $1,500. According to the 2010 tax data summary reports supplied to BAP by MU, there were 1,630,774 resident dependency exemptions claimed for tax year 2010. Increasing this deduction by $300 would lead to an additional deduction of $489.2 million from taxable income. At the 5.9% proposed rate, this provision would reduce General and Total State Revenues by $28.9 million. This proposal would also extend the existing deduction for surviving spouses, but would remove a $1,400 deduction for head of household filers.

Officials from the **Office of Administration, Division of General Services**, the **Department of Agriculture**, the **Department of Economic Development**, and the **City of Kansas City** assume this proposal would have no fiscal impact to their organizations.

Officials from the **Department of Conservation** (MDC) assume this proposal would have an unknown positive fiscal impact to their organization from the improved collection procedures.

Officials from the **Department of Natural Resources** assume this proposal could have an unknown impact to their organization from the increase in taxes, fees, and debts collected by the Department of Revenue.

Officials from the **Department of Insurance, Financial Institutions, and Professional Registration** (DIFP) assume that the provisions in this proposal could be absorbed with existing resources; however, should the cost be more than anticipated, DIFP would request an increase in appropriations through the budget process.

ASSUMPTION (continued)

Officials from the **Department of Elementary and Secondary Education** (DESE) assume that the proposal would require the Director of the Department of Revenue to check an educator certifications database; however, most likely DESE would be required to provide a copy of our database to them. We would likely make that request with OA ITSD, and defer to them regarding costs.

The proposal further indicates that DESE would be required to suspend a certificate within 90 days of notification from the Department of Revenue (DOR). Because only the State Board of Education can suspend certificates, each of these notifications would require materials to be prepared for the state board, as well as the educator. Depending upon the number of certificate holders involved, this could be quite time-consuming. In addition to suspending certificates, DESE would be required to monitor each of these cases until the is resolved.

In order to fulfill the requirements of the proposal, DESE officials assumed that one additional FTE Administrative Assistant would be required. The DESE estimate of cost to implement the proposal including salary, benefits, equipment, and expense totaled $42,619 for FY 2013, $48,550 for FY 2014, and $49,057 for FY 2015.

In response to similar provisions in HB 316, LR 11498-01, 2011, DESE officials did not indicate a requirement for additional staffing. **Oversight** assumes the number of educator license actions would be minimal and that DESE could absorb the cost with existing resources. IfF unanticipated costs are incurred or if multiple proposals are implemented which increase the DESE workload, resources could be requested through the budget process.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would make changes in the collection provisions for taxes and other debts owed to the state.

Section 32.383 RSMo Tax Amnesty

DOR officials assume this legislation could have a net positive impact for FY 2013 on the General Revenue Fund of $51.8 million and on Total State Revenue of $61.4 million. The department estimates that $75 million (including $63 million in GR) may be received through amnesty, but $50 million total funds (including $42million in GR) would have been identified as outstanding liabilities by the department. DOR officials assume that an overwhelming majority of the $50 million, plus interest and penalties, could be collected without an amnesty. Because the Department 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 assumes that DOR has or could identify and collect the approximately $50 million in outstanding balances from existing filers without the amnesty program; however, those taxes would be collected over a period of several years while the amnesty program would most likely achieve collection of the taxes due in FY 2013. Interest and penalties due on those delinquent taxes would not be collected. For fiscal note purposes, Oversight will indicate additional revenues greater than $100,000 for FY 2013.

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 revenue reduction for FY 2013 in the General Revenue Fund.

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.

ASSUMPTION (continued)

The proposal would also add a number of new provisions to enhance DOR collections processes, and DOR officials provided this estimate of additional collections for these provisions.

Sections	Subject	FY 2013 General Revenue Fund	FY 2013 All Funds	FY 2014 General Revenue Fund	FY 2014 All Funds
32.028, 32.410, 32.420, 32.430, 32.440, 32.450, 32.460	Centralized State Debt Collections	$0.75	$1.0	$4.0	$6.0
32.058	Certified Mail	$0.5	$0.5	$0.5	$0.5
32.087	Collection Fee - 1%	$0.35	$0.35	$0.35	$0.35
32.385	Reciprocal debt offset	$5.7	$7	$4.1	$5
32.088, 105.715, 144.083, 140.910, and 168.071	Enhanced No Tax Due Requirement and Administrative Garnishment Teacher Licenses	$5.55	$6.0	$20.6	$21.5

ASSUMPTION (continued)

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. Oversight will indicate unknown additional revenues for the Conservation Commission Fund, the Parks, and Soil and Water Fund, the School District Trust Fund and local governments for FY 2013, FY 2014, and FY 2015.

Tax Amnesty Program Cost

DOR officials stated that based on 2011 estimates, there are approximately 490,000 known taxpayers eligible for amnesty.

* Postage, envelopes and printing
  (490,000 x $.505) = $247,450

* Taxation Division costs

Overtime to review correspondence-	$100,000
Overtime to review errors on returns-	$73,000
Key entry for returns and payments-	$145,000
Customer contacts-	$30,000
Total	$348,000

The department also recommends an advertising budget of at least $400,000. Advertising the amnesty should enhance overall participation in the program. Advertising should also help ensure that individuals and businesses not already in contact with the department about their tax liabilities participate in the program.

In the alternative, the state could contract with a private vendor to administer the amnesty, like several other states, that have achieved very good results. Contracting with a vendor avoids the direct costs to the department, noted above. Vendor payment could be based on the percentage of the debts collected.

ASSUMPTION (continued)

The DOR estimate of cost to implement this proposal also included a system upgrade estimated at $1.5 million, professional services of $561,000, and postage of $86,250.

Oversight assumes that the cost to operate the program with DOR staff would be significantly lower than the cost to contract with a vendor since collection programs normally operate on a percentage-of-collections basis, and DOR staff would still be required to process returns and correspondence and to correct errors on returns. Oversight will indicate a cost in excess of $100,000 in FY 2013 for the amnesty program.

Administrative impact

DOR officials provided an estimate of the cost to implement this proposal including one additional employee; the total cost including salary, employee benefits, equipment, and expense totaled $3,370,389 for FY 2013, $40,307 for FY 2014, and $$40,725 for FY 2015.

Oversight assumes that any additional employee workload would be nominal and could be absorbed with existing resources. If unanticipated costs are incurred or if multiple proposals are implemented which increase the DOR workload, additional resources could be requested through the budget process. Oversight will indicate unknown costs in excess of $100,000 in FY 2012 for the Department of Revenue to administer the amnesty program and for the consulting, system upgrade, and additional postage.

IT impact

DOR officials provided an estimate of the IT cost to implement the proposal of $277.614 based on 10,476 hours of programming to make changes to DOR systems.

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

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume this proposal would, if enacted, provide additional collection procedures for the Department of Revenue, enact a Tax Amnesty, and make several changes to personal income tax provisions.

ASSUMPTION (continued)

EPARC officials stated that they were not able to provide estimates for the impact on Missouri Net General Revenue regarding the additional collection procedures and Tax Amnesty portions of this bill. However, we are able to estimate the impact of the proposed changes to personal income tax provisions.

Specifically, this proposal would reduce the number of brackets from ten to two in the following manner:

Taxable Income	Tax Due:
Less than or equal to $9,000	4% of Missouri taxable income
Over $9,000	$360 plus 5.9% of the excess over $9,000

The proposal would also increase the personal and spouse exemptions from $2,100 to $3,000, increase the dependent exemption from $1,200 to $1,500, and would require taxpayers who file as "Head of Household" on their Federal 1040 to file as "Single" on their Missouri 1040.

The EPARC estimate of net fiscal impact is a reduction from the individual income tax for Missouri (2010) as a baseline Net Tax Due of $4,481.075 million to a Net Tax Due of $4,424.040 million. This is a decrease in Net Tax Due of $57.035 million from the baseline.

Oversight will use the EPARC estimate of fiscal impact for the personal income tax provisions. Oversight notes that the personal income tax provisions would be effective January 1, 2012 and assumes the first returns using the new provisions would be filed for 2012 in January 2013 (FY 2013).

Oversight will also include unknown additional revenue for the 1% collection fee for the General Revenue Fund for FY 2013, FY 2014, and FY 2015, and a corresponding reduction in revenues for local governments.

FISCAL IMPACT - State Government	FY 2013 (10 Mo.)	FY 2014	FY 2015
GENERAL REVENUE FUND			
Additional revenue - Department of Revenue 1% collection fee	Unknown	Unknown	Unknown
Additional revenue - Department of Revenue Tax amnesty program	More than $100,000	$0	$0
Additional Revenue - Department of Revenue Tax collection procedures	More than $100,000	More than $100,000	More than $100,000
Cost - Department of Revenue - Collection procedures, amnesty program, consulting, system upgrade, and additional postage.	(More than $100,000)	(More than $100,000)	(More than $100,000)
Revenue reduction - Department of Revenue Interest, penalties, and additions to tax waived.	(Unknown)	$0	$0
Revenue reduction - Department of Revenue Personal income tax provisions	($57,035,000)	($57,035,000)	($57,035,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($57,035,000) to Unknown**	**($57,035,000) to Unknown**	**($57,035,000) to Unknown**

CONSERVATION COMMISSION FUND			
Additional Revenue - Department of Revenue Tax collection procedures	Unknown	Unknown	Unknown
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	**Unknown**	**Unknown**	**Unknown**
PARKS, AND SOIL AND WATER FUNDS			
Additional Revenue - Department of Revenue Tax collection procedures	Unknown	Unknown	Unknown
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUNDS	**Unknown**	**Unknown**	**Unknown**
SCHOOL DISTRICT TRUST FUND			
Additional Revenue - Department of Revenue Tax collection procedures	Unknown	Unknown	Unknown
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**Unknown**	**Unknown**	**Unknown**

FISCAL IMPACT - Local Government	FY 2013 (10 Mo.)	FY 2014	FY 2015
LOCAL GOVERNMENTS			
Additional Revenue - Department of Revenue collection procedures	Unknown	Unknown	Unknown
Revenue reduction - Department of Revenue 1% collection fee	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**Unknown**	**Unknown**	**Unknown**

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which would be eligible and apply for the amnesty program.

FISCAL DESCRIPTION

This proposal would provide additional collection procedures for the Department of Revenue, enact a tax amnesty, and would make several changes to personal income tax provisions.

* The Department of Revenue could retain 1% of the amount of any local sales or use taxes collected by the department for the cost of collection.

FISCAL DESCRIPTION (continued)

* An individual would be required beginning January 1, 2013, to possess a no-tax due statement from the department dated within 90 days of a person's licensure application before any city or county occupation license or any state business license can be issued or renewed. The department director could enter into an agreement with any state agency responsible for issuing any state license requiring the agency to provide the department with the name and tax identification number of each applicant for licensure within one month of the date the application is filed or at least one month prior to the anticipated license renewal. If an applicant is delinquent on any taxes, the department director would be required to send a notice to the licensing agency and the applicant. An applicant's license would be suspended within 90 days after the notice unless the taxes are paid, an arrangement has been made with the department to pay the taxes, the taxes were paid under protest, or the tax liability is found to be reasonably disputed.

* Anyone making a claim or having a judgment under the provisions of the State Legal Expense Fund would be required to have a no-tax due statement from the department before any moneys could be expended from the fund. An offset from the fund could be made to satisfy any delinquent tax debt owed before payment is made to the person. Payments of $10,000 or greater from the fund for property damage claims are not required to have a no-tax due statement.

* There would be an amnesty from the assessment or payment of all penalties, additions to tax, and interest on delinquencies of unpaid taxes administered by the department which occurred on or prior to December 31, 2011. A taxpayer must apply for amnesty, file a tax return for each tax period for which amnesty is requested, pay the unpaid taxes in full from August 1, 2012, to October 31, 2012, and agree to comply with state tax laws for the next eight years from the date of the agreement. All new revenues resulting from the tax amnesty program would be deposited into the General Revenue Fund unless otherwise earmarked by the state constitution.

* State agencies could refer uncollected debts to the department for collection. The department and the referring state agency would be authorized to exchange any necessary information and would be required to follow all federal and state laws regarding the confidentiality of information and records.

FISCAL DESCRIPTION (continued)

* The department could compromise any referred state debt and use all general remedies afforded creditors of Missouri, remedies specific to the referring state agency, and remedies afforded the state in general. Unless a judgment or lien was filed prior to the agency referring the debt to the department, the venue for any suit filed for the collection of state debt would be Cole County. The department could employ staff, attorneys, the Attorney General, prosecuting attorneys, and private collection agencies to aid in the collection of debt. The department could add 10% to the amount of debt to be collected for the cost of collection. which can be waived under specified conditions.

* The department could issue an administrative garnishment once he or she has filed a certificate of lien in the circuit court for delinquent income or sales or use taxes. Any person receiving this order would be required to must turn over any of the taxpayer's assets in his or her possession and any assets that are to become due the taxpayer including wages, salaries, commissions, bonuses, workers' compensation benefits, disability benefits, pension or retirement payments, and interest less a fee to cover costs of no more than $6 per month. The taxpayer could obtain relief from the garnishment by paying the total amount owed.

* Beginning January 1, 2013, the Department of Elementary and Secondary Education would be required to provide, at least annually, to the Director of the Department of Revenue the name and Social Security number of each certificate holder or applicant for a certificate of license to teach in Missouri. The Director of the Department of Revenue would at least once a year verify that all income taxes have been paid and state income tax returns have been filed in the past three years and must send a notice to the Department of Elementary and Secondary Education and the certificate holder or applicant if a person has not paid his or her taxes or filed the tax returns. A certificate holder's license would be suspended within 90 days after the notice, and an applicant's license could not be issued unless the taxes are paid, an arrangement has been made with the Department of Revenue to pay the taxes, the taxes were paid under protest, or the tax liability is found to be reasonably disputed.

FISCAL DESCRIPTION (continued)

- The Director of the Department of Revenue and the Commissioner of the Office of Administration could enter into a reciprocal agreement with the federal government or any other state to offset vendor and contractor payments for any type of debt owed to the state.

- The state individual income tax rate schedule would be changed beginning January 1, 2012, to 4% of the Missouri taxable income up to and including $9,000 and 5.9% of Missouri taxable income for income over $9,000.

- Beginning January 1, 2012, the head of household filing status would be discontinued. Any taxpayer filing as head of household on his or her federal tax return would file as single on his or her state tax return.

- Beginning January 1, 2012, the amount of the personal and spouse exemption would be increased from $2,100 to $3,000 and the amount of the dependency exemption would be increased from 1,200 to $1,500.

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
    Division of General Services
Department of Agriculture
Department of Conservation
Department of Economic Development
Department of Elementary and Secondary Education
Department of Insurance, Financial Institutions, and Professional Registration
Department of Natural Resources
Department of Revenue
Joint Committee on Administrative Rules
University of Missouri
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