

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0719-02  
Bill No.: Perfected HCS for HB 268  
Subject: Revenue Department; Taxation and Revenue - Income  
Type: Original  
Date: April 8, 2015

**Bill Summary:** This proposal would allow taxpayers to seek a refund after the statute of limitations has passed if the taxpayer amends their federal return or the federal Internal Revenue Service changes the taxpayer's federal return.

In addition, this proposal would authorize certain cities to impose, upon voter approval, a sales tax of up to .5% for the purpose of improving the public safety of the city.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	(More than \$100,700)	(Unknown)	(Unknown)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(More than \$100,700)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 10 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</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 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>
<b>Local Government*</b>	<b>\$0 or (Less than \$130,000)</b>	<b>\$0</b>	<b>\$0</b>

\* Potential sales tax revenue and offsetting expenditures of approximately \$3,965,000 million annually if approved by the voters.

## FISCAL ANALYSIS

### ASSUMPTION

#### Section 143.801, RSMo. - Credits and Refunds

Changes to this provision would allow a taxpayer to claim a credit or refund for overpayment of income taxes after the statute of limitations for making a claim has expired, if the taxpayer files an amended federal return or if the federal Internal Revenue Service changes the taxpayer's federal return after such time has expired.

Officials from the **Office of Administration - Division of Budget and Planning** assume this proposal could reduce Total State Revenues and General Revenue but would not have an impact on the calculation of excess revenue under Section 18(e) of the state constitution.

Officials from the **Department of Revenue (DOR)** assume this legislation could result in additional refunds.

**Oversight** will assume this proposal would result in an unknown amount of additional refund payments.

#### Fiscal impact

**DOR** officials assume the proposed language could result in a reduction to Total State Revenue but did not provide an estimate of the number or amount of additional refunds which could be allowed.

DOR officials stated they anticipated some previously disallowed refunds would be allowed if this proposal is implemented.

**Oversight** notes the proposal would require DOR to create a process to allow a taxpayer to claim refunds and credits which can not be claimed under current statute of limitations provisions. That process would become available if the taxpayer files an amended federal return, or the Internal Revenue Service changes the taxpayer's federal return and the changes would make the taxpayer eligible for a credit or refund.

ASSUMPTION (continued)

Administrative Impact

**DOR** officials assumed Personal Tax would require two additional Revenue Processing Technicians I for returns processed and error correction, and Corporate Tax would require one additional Revenue Processing Technician I for correspondence, and programming time to develop and install new notices and notice messages. In addition, Collections & Tax Assistance (CATA) would require two additional Tax Collection Technicians I for calls to the delinquent and non-delinquent call centers. These personnel would require CARES equipment and licenses. Finally, Withholding Tax would require one additional Revenue Processing Technician I for correspondence.

The DOR estimate of cost to implement this proposal including six additional employees, benefits, equipment, and expense, totaled \$245,770 for FY 2016, \$252,257 for FY 2017, and \$254,882 for FY 2018.

**Oversight** assumes a relatively small number of additional refunds would be allowed by this proposal and assumes DOR could implement this proposal with existing resources. If an unanticipated additional workload is created by this proposal or if multiple proposals are implemented which increase the DOR workload, additional resources could be requested through the budget process.

IT impact

DOR officials also provided an estimate of the IT cost to implement this proposal of \$100,700 for 1,343 hours of contractor programming at \$75 per hour.

**Oversight** will include the DOR estimate of IT cost in this fiscal note.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State**, the **Joint Committee on Administrative Rules**, the **Department of Economic Development** and the **Department of Insurance, Financial Institutions, and Professional Registration** assume this proposal would not have a fiscal impact to their organizations.

Amendments

The amendment would authorize certain cities to impose, upon voter approval, a sales tax of up to .5% for the purpose of improving the public safety of the city.

In response to HB 566 LR 1455-01, officials from the **City of Liberty** stated their estimate of revenue from a one-half cent sales tax would be approximately \$1,700,000 per year and the election cost would be approximately \$30,000. City officials did not indicate any additional cost to their organization to implement this proposal, and Oversight assumes any additional cost could be absorbed with existing resources. Oversight will include the city's estimated municipal election cost in this fiscal note.

In response to HCS for HB 566 LR 1455-02, officials from the **City of North Kansas City** stated their estimate of revenue from a one-half cent sales tax would be approximately \$1,575,000 each year if the entire half-cent sales tax was levied. City officials did not indicate any additional cost to their organization to implement this proposal, and Oversight assumes any additional cost could be absorbed with existing resources. The city did not provide an estimate of election costs for this proposal, and Oversight will include an unknown but less than \$100,000 estimated election cost in this fiscal note for the city.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** noted similar language in HCS for HB 566 LR 1455-02 would allow voters in certain cities to approve a sales tax up to  $\frac{1}{2}$  of one percent to improve public safety of the city.

BAP officials provided information from the Department of Revenue (DOR) 2014 sales tax report which indicated taxable sales in Liberty totaled \$428.8 million in fiscal year 2014. Therefore, BAP officials estimated the proposed sales tax could generate up to  $(\$428,800,000 \times .005) = \$2.14$  million (rounded) annually for the city beginning as early as two weeks after the 2016 August primary election, unless a special election is called before such date. BAP officials assume up to \$1.79 million would be collected for FY 2017.

ASSUMPTION (continued)

**BAP** officials also provided information from the Department of Revenue (DOR) 2014 sales tax report which indicated taxable sales in North Kansas City totaled \$365 million in fiscal year 2014. Therefore, BAP officials estimated the proposed sales tax could generate up to  $(\$365,000,000 \times .005) = \$1.825$  million (rounded) annually for the city beginning as early as two weeks after the 2016 August primary election, unless a special election is called before such date. BAP officials assume up to \$1.544 million would be collected for FY 2017.

BAP officials also noted the revenues collected would have no direct impact on Total State Revenues; however 1% would be retained to offset DOR collection costs, and Total State Revenues could be increased by \$39,650 if the sales tax proposals are approved.

For simplicity, **Oversight** will not include the one percent additional collection deduction in this fiscal note.

**Oversight** assumes the BAP revenue estimates for this proposal are the best estimates available and will use those estimates for this fiscal note. Oversight assumes the additional revenues would be spent for public safety purposes and will also include additional cost for local governments equal to the additional revenue in this fiscal note.

**Oversight** also assumes the proposals could be submitted to the voters as early as the April, 2016 (FY 2016) municipal elections. If a sales tax is approved by the voters, it would become effective on the first day of the second calendar quarter after the election. The proposed sales tax could therefore become effective as early as October 1, 2016 (FY 2017).

For fiscal note purposes, **Oversight** will assume the election would be held with the April, 2016 municipal elections and sales tax could be collected from October 1, 2016 to June 30, 2017 (FY 2017). Oversight is also aware there is some delay in collecting, reporting, accounting, and remitting sales tax to local governments; however, we will indicate revenue up to nine months (75%) of the annual estimate for FY 2017.

For the City of Liberty, the estimate would be  $(\$2,140,000 \times .75) = \$1,605,000$ , and for FY 2018 and following years, the sales tax revenue estimate would be \$2,140,000.

For the City of North Kansas City, the estimate would be  $(\$1,825,000 \times .75) = \$1,369,000$  (rounded) and for FY 2018 and following years, the sales tax revenue estimate would be \$1,825,000.

ASSUMPTION (continued)

Finally, **Oversight** notes this proposal would allow but not require the cities to propose a public safety sales tax to the voters, and the fiscal impact will be presented as \$0 (no election held) or the estimated election costs above and \$0 (no election or voters do not approve the sales tax) or the estimated sales tax revenue above.

Officials from the **Department of Revenue (DOR)** stated that HCS for HB 566 LR 1455-2 would authorize these cities to impose a one-half percent sales tax for improving public safety but would have no impact on their organization.

DOR officials provided an estimate of the IT cost to implement the proposal of \$3,000 based on 40 hours of programming at \$75 per hour 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, and 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 budget process.

Officials from the **Office of the Secretary of State (SOS)** assumed similar language in HB 566 LR 1455-01 would have no impact on their organization.

Officials from the **Joint Committee on Administrative Rules** assumed similar language in HCS for HB 566 LR 1455-02 would have no impact on their organization.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
<b>GENERAL REVENUE FUND</b>			
<u>Cost - Department of Revenue</u>			
IT cost	(\$100,700)	\$0	\$0
<u>Revenue reduction</u>			
Refunds			
Section 143.801	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(More than \$100,700)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
<b>LOCAL GOVERNMENTS</b>			
<u>Additional revenue - City of Liberty</u>			
Sales tax	\$0	\$0 or Up to \$1,605,000	\$0 or \$2,140,000
<u>Cost - City of Liberty</u>			
Public Safety	\$0	\$0 or (Up to \$1,605,000)	\$0 or (\$2,140,000)
<u>Cost - City of Liberty</u>			
Election	\$0 or (\$30,000)	\$0	\$0
<u>Additional revenue - City of North Kansas City</u>			
Sales tax	\$0	\$0 or Up to \$1,369,000	\$0 or \$1,825,000
<u>Cost - City of Liberty</u>			
Public Safety	\$0	\$0 or (Up to \$1,369,000)	\$0 or (\$1,825,000)
<u>Cost - City of North Kansas City</u>			
Election	\$0 or (Less than \$100,000)	<u>\$0</u>	<u>\$0</u>
<b>ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS</b>	<b><u>\$0 or (Less than \$130,000)</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>



### FISCAL IMPACT - Small Business

A small business could receive a tax credit or refund which was previously unavailable due to the statute of limitations, if this proposal is implemented.

If the proposed sales tax is approved by the voters, this proposal would have a direct fiscal impact to a business in one of the designated cities which purchases taxable goods or services.

### FISCAL DESCRIPTION

This proposal would allow a taxpayer to claim a credit or refund of an income tax overpayment which was otherwise disallowed due to the statute of limitations, if the taxpayer files an amended federal return or the federal Internal Revenue Services changes the taxpayer's federal return and the changes would make the taxpayer eligible for a tax refund or tax credit.

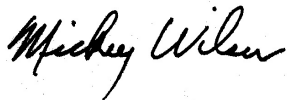
This proposal would also authorize certain cities to submit to the voters a proposal to impose a sales tax of up to .5% for the purpose of improving the public safety of the city.

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  
Joint Committee on Administrative Rules  
Office of Administration  
    Division of Budget and Planning  
Department of Economic Development  
Department of Insurance, Financial Institutions, and  
    Professional Registration  
Department of Revenue  
Department of Revenue  
City of Liberty  
City of North Kansas City

**Not responding:**  
Clay County



Mickey Wilson, CPA  
Director  
April 8, 2015

Ross Strobe  
Assistant Director  
April 8, 2015