

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1033-01
Bill No.: Perfected HB 389
Subject: Taxation and Revenue - General; Revenue, Department of
Type: # Updated
Date: April 27, 2015
 # Updated with additional information from Department of Revenue.

Bill Summary: This proposal would require the Department of Revenue to implement a system enabling certain businesses to pay recurring taxes or fees in one transaction per month.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented
#General Revenue	\$0	\$0	(\$402,685)	\$240,218 to \$1,504,574
Total Estimated Net Effect on General Revenue *	\$0	\$0	(\$402,685)	\$240,218 to \$1,504,574

* The proposal would be fully implemented in FY 2021.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 14 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented
General Revenue	0 FTE	0 FTE	2 FTE	15 FTE
Total Estimated Net Effect on FTE	0 FTE	0 FTE	2 FTE	15 FTE

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

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented
# Local Government	\$0	\$0	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** noted this proposal would require DOR to implement a system that allows qualifying businesses to pay one transaction per month to the Department. A business which pays any tax, fee, charge, or assessment in excess of \$50,000 to 25 or more local assessing entities would qualify to pay one transaction per month to DOR, and DOR would be required to pay the assessing entity the amount remitted within 15 days after the receipt of the funds from the qualifying business. The proposal would allow the Department to collect a fee from the qualifying business of up to one percent of the amount remitted by the business.

DOR officials assume the provisions of this legislation would require a substantial increase in personnel, equipment, and recurring expenses to implement and maintain the program.

Administrative impact

DOR officials assume their organization would develop a new section within the Division of Taxation to implement this legislation, and that section would include one Revenue Band Manager 2 (Range 32, Step P) to manage the section, three (3) Revenue Band Managers 1 (Range 28, Step O) to oversee the operations of the section, six Section Supervisors (Range 22, Step N) to manage unit leaders, twelve Revenue Processing Technicians III (Range 16, Step M) to act as Unit Leaders providing supervision for the Revenue Processing Technicians, and seventy-nine (79) Revenue Processing Technicians I (Range 10, Step L) to conduct the daily operations of the section.

DOR officials assume there would be substantial one-time costs to set up the program.

1. Office construction for band managers,
2. Cubicle construction for all other personnel,
3. Purchase of chair, phones, calculators, computers, etc,

ASSUMPTION (continued)

DOR officials also provided an estimate of potential recurring expense and equipment items.

1. Standard office supplies for daily operations,
2. Telephone charges, and
3. Leased office space

DOR officials stated there is insufficient space in the Harry S Truman State Office Building allocated to the Department; therefore, the Department would be required to lease space in the Jefferson City area at a rate of \$17 per square foot. Based on 2007 Statewide Space Standards, the Department would require approximately 7,264 square feet to accommodate the DOR's estimate of full-time equivalent personnel to implement the program.

The DOR estimate of cost to implement this proposal included 101 additional employees and the total including salaries, benefits, and equipment and expense totaled \$4,581,840 for FY 2016, \$4,857,259 for FY 2017, and \$4,910,457 for FY 2018.

Oversight has no independent information as to the number of businesses which would be enrolled in the program or the number or amount of transactions that would be processed in the system that DOR would be required to create. Oversight is not aware of any similar governmental programs or businesses which provide this type of service, and will indicate a cost up to the DOR cost estimate (as adjusted) in this fiscal note.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employees 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 and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines.

Oversight is aware this proposal could reduce payment processing and collections costs for state agencies and/or local governments but has no information as to any potential savings and will not include an estimate of savings in this fiscal note.

ASSUMPTION (continued)

Oversight will assume this proposal would be implemented to allow businesses to consolidate multiple recurring payments by businesses to state agencies and local governments, and the Department of Revenue would not allow current weekly sales tax filers and quarter-monthly withholding tax filers to include those taxes in their consolidated monthly payments under this proposal. If this proposal is interpreted differently, it could lead to cash flow changes for the state and reduced interest income.

IT impact

DOR officials also provided an estimate of the IT cost to implement this proposal of \$300,429 based on 4,006 hours of programming at the current state contract rate of \$75.

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

Officials from the **Office of Administration-Division of Budget and Planning (BAP)** noted this proposal would require the Department of Revenue (DOR) to administer reoccurring taxes, fees, charges or assessments for requesting businesses. DOR would be allowed to charge a fee up to 1% of the amount remitted. BAP officials stated the fees would have no impact on Total State Revenues as the fee would be a cost reimbursement; however, the 1% fee would impact the calculation required under Section 18(e) of the state constitution by the amount charged.

BAP officials assume the amount is unknown as it would be dependent on how many businesses elect to have DOR administer their reoccurring payments and the amount of those payments. BAP officials deferred to DOR for additional information on the impact and on any administrative costs.

ASSUMPTION (continued)

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 greater than 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 this proposal would not have a fiscal impact to their organization in excess of existing resources.

Amendments

House Amendment 1 would implement the proposal over three years, beginning in FY 2018 with up to twenty-five businesses, up to one hundred businesses in FY 2019, and all qualifying businesses that apply in FY 2020 and following years.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** provided a response to similar language in another proposal in which BAP officials stated the underlying proposal would require the Department of Revenue (DOR) to administer reoccurring taxes, fees, charges or assessments for requesting businesses, and DOR would be allowed to charge a fee up to 1% of the amount remitted.

BAP officials assumed the proposal as amended would have no impact on TSR as the fee would be a cost reimbursement; however, the 1% fee would impact the 18(e) calculation by the amount charged. BAP officials stated the amount is unknown as it is dependent upon how many businesses would elect to have DOR administer their reoccurring payments and the amount of those payments, and deferred DOR for additional information on the impact and on any administrative costs.

ASSUMPTION (continued)

Officials from the **Department of Revenue** provided a response to similar language in another proposal which included limited information on the DOR estimate of cost for the first three years of program operation.

DOR officials estimated there are approximately 2,500 businesses that may qualify for this program, and stated the following information was provided to the Department about businesses that may qualify.

Large Employer Example:

Number of Jurisdictions:	400
Amount of Monthly Payments:	\$650,000

Midsized Employer Example:

Number of Jurisdictions:	57
Amount of Monthly Payments:	\$30,000

DOR officials estimated that 16 employees would be needed the first year of program operations, thirty-two would be needed the second year, and the entire staff estimated for the original proposal would be needed for the third and following years.

DOR officials stated the amount of monthly payments provided above is for the single example business. Further, DOR officials stated they know of one potential large employer which might participate in this program but do not have any further information as to businesses which might be interested in the program.

Oversight has no independent information regarding the number or size of businesses which might be enrolled in this program, but notes the Department of Revenue (DOR) provided additional information in response to similar language in another proposal. DOR officials have stated that the program could be more easily implemented in FY 2018 on the assumption that the Integrated Revenue System would be implemented by that time and could provide the necessary processing capability.

ASSUMPTION (continued)

Oversight notes that virtually all of the information required to set up the billings and payments for the system would be provided by the participating businesses - the Department of Revenue would only have available information on taxes they currently collect. Although other state agencies may provide information on taxes and fees they collect from businesses, information regarding local sales taxes and fees would of necessity be provided by the businesses. Therefore, Oversight assumes the DOR estimate of personnel required to implement the proposal may be overstated.

Oversight will assume for fiscal note purposes that DOR could implement this proposal with two additional employees initially and fifteen employees when it is fully implemented. If the additional workload for DOR staff resulting from this proposal is significantly greater than anticipated, or if multiple proposals are implemented that significantly increase the DOR workload, resources could be requested through the budget process.

Oversight will provide an estimate of the potential fiscal impact of this proposal based on the information above.

Oversight will assume, for fiscal note purposes only, the Department of Revenue would have the maximum authorized 25 businesses enrolled in the program as of January 1, 2018, and one of them would be a large employer while the other 24 would be mid-sized employers.

The one large employer would be remitting approximately \$650,000 per month or $(\$650,000 \times 12) = \$7,800,000$ per year to 400 taxing entities.

The 24 mid-sized employers would each be remitting \$30,000 per month $(24 \times \$30,000 \times 12) = \$8,640,000$ per year. The number of taxing entities could be less than $(24 \times 57) = 1,368$ due to potential overlap among businesses but for the purposes of this example, Oversight will assume there would be 1,368 individual taxing entities.

The 1% fee for processing the payments on behalf of the 25 businesses would be $(\$7,800,000 + \$8,640,000) = \$16,440,000 \times 1\% = \$164,400$.

The Department of Revenue would be processing $(12 \times 400) = 4,800$ payments per year for the large employer, and $(12 \times 1,368) = 16,416$ payments for the mid-sized employers.

ASSUMPTION (continued)

DOR officials have provided printing and mailing information on other proposals indicating that their cost of printing and mailing is \$0.555 per item; therefore, the envelope, printing, and postage for the payments would be $((4,800 + 16,416) = 21,216 \text{ payments}) * \$0.555 = \$11,775$.

At our request, officials from the **Office of the state Treasurer (STO)** provided information regarding the cost of processing payment transactions. STO officer stated that the cost of printing paper checks was \$0.0591 and the cost of ACH (electronic payment) transactions was \$.02 per item.

Oversight assumes the STO cost to process payments under this program would initially be paper-based, and might eventually be migrated to an ACH system as the program is fully implemented. For fiscal note purposes, however, Oversight will include the STO cost of \$0.0591 per payment.

The processing cost for the first year payments would be $(21,216 * \$0.0591) = \$1,254$.

Oversight notes the program, as amended, would be implemented beginning January 1, 2018, and will include six months program activity and DOR costs, as adjusted, for this program in FY 2018:

- * DOR processing fee $(\$164,400 * 6/12) = \$82,200$
- * DOR mailing cost $(\$11,775 * 6/12) = \$5,888$
- * STO processing cost $(\$1,254 * 6/12) = \627

Oversight assumes that in the second year of the program beginning January 1, 2019, DOR could have an additional 100 businesses enrolled in the program, for a total of one hundred twenty-five businesses. The additional businesses might include one additional large employer and an additional 99 medium sized employers.

The two large employers would be remitting \$15,600,000 per year for 9,600 payments to 800 taxing entities, and the 123 medium employers would be remitting \$44,280,000 per year for 84,132 payments to $(123 * 57) = 7,011$ taxing entities.

The 1% fee for processing the payments on behalf of the 125 businesses would be $((\$15,600,000 + \$44,280,000) * 1\%) = \$59,880,000 * 1\% = \$598,800$.

ASSUMPTION (continued)

The DOR mailing cost for the $((9,600 + 84,132) = 93,732 \times \$0.555)$ payments at \$.555 would be \$52,021 and the processing cost for those payments would be $(93,272 \times \$0.0591) = \$5,512$.

Oversight will also assume for fiscal note purposes the Department of Revenue could have from ten percent to twenty-five percent of the estimated 2,500 eligible businesses enrolled when the program is fully implemented. The amounts calculated will be shown in the following table.

Participation rate	Ten percent	Twenty-five percent
Large employers	3	4
Medium employers	247	621
Total employers	250	625
Payments - large employers	14,400	19,200
Payments - medium employers	168,948	424,764
Total payments	183,348	443,964
Amount - large employers	\$23,400,000	\$31,200,000
Amount - medium employers	\$88,920,000	\$223,560,000
Total payments	\$112,320,000	\$254,760,000
DOR 1% fee	\$1,123,200	\$2,547,600
DOR mailing cost	\$101,758	\$246,400
STO processing cost	\$10,836	\$26,238
Processing and mailing	\$112,594	\$272,638

ASSUMPTION (continued)

Oversight will indicate fiscal impact for the fully implemented program in a range from the amounts calculated at 10% to the amounts calculated at 25%.

House Amendment 2 would specify that the proposal would make payments to local taxing jurisdictions rather than assessing entities.

Oversight assumes the amendment would not change the fiscal impact of the proposal.

Oversight notes that a significant part of the 1% cost reimbursement for DOR in this proposal would be withheld from local government fees and taxes due from the participating businesses. Although there could be a potential reduction in local government administrative costs to the local governments from the DOR payment processing, Oversight will indicate an unknown amount of revenue reduction to local governments in this fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2016	FY 2017	FY 2018 (6 Mo)	Fully Implemented
GENERAL REVENUE FUND				
<u># Additional revenue - DOR</u>				
Collection reimbursements	\$0	\$0	\$82,200	\$1,123,200 to \$2,547,600
<u># Cost - DOR</u>				
Salaries	\$0	\$0	(\$101,044)	(\$455,701)
Benefits	\$0	\$0	(\$51,537)	(\$232,430)
Equipment and expense	\$0	\$0	(\$25,360)	(\$82,257)
Mailing	\$0	\$0	(\$5,888)	(\$101,758 to \$246,400)
IT cost	<u>\$0</u>	<u>\$0</u>	<u>(\$300,429)</u>	<u>\$0</u>
Total cost	\$0	\$0	(\$484,258)	(\$872,146 to \$1,016,788)
# FTE change for DOR	0 FTE	0 FTE	2 FTE	15 FTE
<u># Cost - STO</u>				
Payment processing	<u>\$0</u>	<u>\$0</u>	<u>(\$627)</u>	(\$10,836 to <u>\$26,238</u>)
# ESTIMATED NET EFFECT ON GENERAL REVENUE FUND *				
	<u>\$0</u>	<u>\$0</u>	<u>(\$402,685)</u>	\$240,218 to <u>\$1,504,574</u>
<u># Estimated Net FTE Effect on General Revenue Fund</u>				
	0 FTE	0 FTE	2 FTE	15 FTE

* The proposal would be fully implemented in FY 2021.

<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018	Fully Implemented
---	---------------------	---------	---------	-------------------

LOCAL GOVERNMENTS

<u># Revenue reduction</u>				
DOR reimbursement	<u>\$0</u>	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
# ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>\$0</u>	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

The proposed legislation would require the Department of Revenue to create a system to allow a business to remit one payment per month to the department for a tax, fee, charge, or assessment if the total amount is more than \$50,000 per year and is owed to at least 25 assessing entities. The department would be required to pay the assessing entities no later than 15 days after receipt of the payment and could collect an administrative charge from the business up to 1% of the amount remitted.

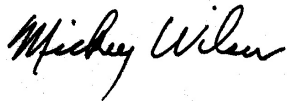
The perfecting amendments would delay implementation to January 1, 2018, implement the program in stages, and specify that payments would be made to local taxing jurisdictions.

This legislation is not federally mandated, would not duplicate any other program. It would, however, require additional capital improvements or rental space.

L.R. No. 1033-01
Bill No. Perfected HB 389
Page 14 of 14
April 27, 2015

SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Revenue



Mickey Wilson, CPA
Director
April 27, 2015

Ross Strobe
Assistant Director
April 27, 2015