

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1166-01
Bill No.: Perfected HB 384
Subject: Taxation and Revenue - General
Type: Original
Date: March 4, 2015

Bill Summary: This proposal would provide a limited period of tax amnesty.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	Could exceed \$19,893,953	(\$10,272)	\$0
Total Estimated Net Effect on General Revenue	Could exceed \$19,893,953	(\$10,272)	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Conservation Commission	Unknown	\$0	\$0
Parks, and Soil and Water	Unknown	\$0	\$0
Other state	Unknown	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	Unknown	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 11 pages.

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on FTE	0	0	0

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
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would create an amnesty from accrued penalties and interest on unpaid taxes, if taxes are appropriately filed and paid during a period from July 1, 2015, to September 30, 2015.

BAP officials assume that \$75 million in revenues would be collected, including \$50 million already identified from the Department of Revenue (DOR) investigations completed or in process. BAP officials assume 84.2% of collections would be General Revenue, based on the results of the amnesty program in FY 2003. BAP officials noted these estimates are based on income and sales tax liabilities; and a small amount of additional funds may be collected if other taxes collected by DOR, such as tobacco taxes, are included in the amnesty.

BAP officials also assume the proposed amnesty would persuade taxpayers to settle accounts in a more timely fashion than is typical, and note this would create an additional positive cash flow impact in FY 2016, at the expense of payments that would have otherwise been received in later years.

The BAP response included this chart of estimated fiscal impact, in millions of dollars.

Total State Revenue	Total	FY 2016	FY 2017	Subsequent Years
Amnesty collections	\$75.00	\$75.00	\$0.00	\$0.00
Normal collections	(\$50)	(\$14)	(\$23)	(\$14)
Difference	\$25.00	\$61.40	(\$22.80)	(\$13.60)
General Revenue	Total	FY 2016	FY 2017	Subsequent Years
Amnesty collections	\$63	\$63	\$0	\$0
Normal collections	(\$42)	(\$11)	(\$19)	(\$12)
Difference	\$21	\$52	(\$19)	(\$12)

ASSUMPTION (continued)

Oversight assumes the Department of Revenue would collect the approximately \$50 million in the reasonably near future with or without an amnesty program; Oversight will consider the approximately \$25 million as additional revenue for fiscal note purposes.

Oversight notes this proposal would require all collections, other than constitutionally designated revenues, to be deposited into the General Revenue Fund. Oversight has no information as to the specific other types of taxes that would be collected, or the fund which would receive those collections. Oversight will use the BAP assumption that more than 84.2% of the anticipated collections in the program would be deposited into the General Revenue Fund; therefore, Oversight will indicate additional revenues for the state General Revenue Fund greater than $(\$25,000,000 \times 84.2\%) = \$21,050,000$ for FY 2016.

Oversight will also indicate unknown additional revenues for the Conservation Commission Fund and the Parks and Soils and Water Funds, which are designated in the state constitution, and for other state funds which are designated by state law for FY 2016. Finally, Oversight notes the collections could include funds which would otherwise be distributed to local governments but will not include those distributions in this fiscal note.

Officials from the **Department of Revenue (DOR)** assume this proposal could have a net positive impact on General Revenue of \$51.8 million and on Total State Revenue in fiscal year 2016 of up to \$61.4 million.

DOR officials noted the legislation would grant amnesty from assessment or payment of penalties, additions to tax, and interest to taxes administered by the Department under Chapters 32, 143, 144, and 147 from July 1, 2015 to September 30, 2015 for those tax liabilities due or due but unpaid on or before December 31, 2014. DOR officials noted the amnesty provision has an emergency clause.

Fiscal impact

DOR officials estimate that \$75 million in total funds (\$63 million General Revenue) could be received through amnesty, but \$50 million total funds (\$42 million General Revenue) would have been previously identified as outstanding liabilities by the Department. The Department assumes that an overwhelming majority of the \$50 million, plus interest and penalties, could be collected without amnesty.

ASSUMPTION (continued)

Administrative Impact

DOR officials stated there are approximately 377,000 known taxpayers eligible for amnesty, and provided an estimate of cost for this program as follows.

Postage, envelopes and printing

The cost estimate is $377,000 \times \$0.555 = \underline{\$209,235}$

Employee overtime

DOR officials estimate the Taxation Division would have costs for temporary employees and overtime for existing staff:

\$79,325 for existing staff to complete correspondence,

\$57,907 for existing staff to complete error corrections,

\$115,022 to key returns and payments, and

\$23,798 for customer contacts.

\$276,052 Total

Advertising

DOR officials recommended an advertising budget of at least \$400,000, and stated that advertising the amnesty should enhance overall participation in the program and could also help ensure that individuals and businesses not already in contact with the Department about their tax liabilities participate in the program.

DOR officials stated the \$400,000 estimated advertising cost reflects the Department's advertising cost for the most recent previous amnesty, updated for current advertising rates.

ASSUMPTION (continued)

IT cost

DOR officials provided an estimate of IT cost of \$200,229 based on 2,670 hours of contract programming at \$75 per hour in FY 2016 to make changes to DOR systems and \$10,262 based on 137 hours of contract programming in FY 2017 support.

DOR officials stated the tax amnesty program would not be considered as a part of the Department's computer programs for routine processing; rather, it would provide the specific functions required for collecting and processing nonrecurring revenues. In addition, the tax amnesty programming would include the tracking required to implement the extended compliance requirement for amnesty recipients.

The DOR estimate of cost to implement the program is summarized in the following table.

Category	FY 2016	FY 2017
Overtime and temporary employees	\$276,052	\$0
Benefits	\$143,561	\$0
IT contractors	\$200,229	\$10,272
Letters	\$9,425	\$0
Envelopes	\$15,080	\$0
Postage	\$184,730	\$0
Advertising	<u>\$400,000</u>	<u>\$0</u>
Totals	<u>\$1,229,077</u>	<u>\$10,272</u>

As shown below, **Oversight** will adjust the benefit rate to 25.55% per OA budget guidelines; otherwise, Oversight assumes the DOR estimate of cost to implement the tax amnesty program is the best available cost estimate and will use it in this fiscal note.

ASSUMPTION (continued)

Category	FY 2016	FY 2017
Overtime and temporary employees	\$276,052	\$0
Benefits	\$70,531	\$0
IT contractors	\$200,229	\$10,272
Letters	\$9,425	\$0
Envelopes	\$15,080	\$0
Postage	\$184,730	\$0
Advertising	<u>\$400,000</u>	<u>\$0</u>
Totals	<u>\$1,156,047</u>	<u>\$10,272</u>

Officials from the **Department of Transportation (MoDOT)** assume this proposal would have a negative unknown impact on their organization from the forgiveness of a certain portion of tax debt for the sales tax paid on titling of motor vehicles. MoDOT officials stated the fiscal impact is unknown as MoDOT does not have data to analyze how many taxpayers would apply for amnesty associated with sales tax on motor vehicles and how many taxpayers would be granted the amnesty.

Officials from the **Department of Conservation (MDC)** assume this proposal would have an unknown positive fiscal impact greater than \$100,000 to the Department related to the amnesty program.

MDC officials noted the Conservation Sales Tax funds result from a sales tax pursuant to the Missouri Constitution, and assume a portion of sales tax collected through the amnesty program could be deposited to the Conservation Fund. MDC officials assume the Department of Revenue would be better able to estimate the anticipated fiscal impact for this proposal.

ASSUMPTION (continued)

Officials from the **Department of Natural Resources (DNR)** noted this proposal would authorize an amnesty from the assessment or payment of all penalties, additions to tax, and interest on delinquencies of unpaid taxes administered by the Department of Revenue which occurred on or prior to December 31, 2014. A taxpayer would be required to apply for amnesty; pay the unpaid taxes in full between July 1, 2015, to September 30, 2015, and agree to comply with state tax laws for the next eight years from the date of the agreement. If a taxpayer is granted amnesty, he or she would not be eligible to participate in any future amnesty for the same tax. All tax payments received from the tax amnesty program would be deposited into the General Revenue Fund unless otherwise earmarked by the Missouri Constitution. The provisions of this proposal would expire on December 31, 2023 and include an emergency clause.

DNR officials noted the Parks and Soils Sales Tax Funds are derived from one-tenth of one percent sales and use tax pursuant to the Missouri Constitution. Therefore, any additional sales and use tax collected as a result of this proposal could result in an additional revenue to the Parks and Soils Sales Tax Funds.

DNR officials assume the Department of Revenue and the Office of Administration - Division of Budget and Planning will provide a more detailed estimate of the potential fiscal impact for the program.

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.

<u>FISCAL IMPACT - State Government</u>	FY 2016	FY 2017	FY 2018
 GENERAL REVENUE			
<u>Additional revenue</u> - tax amnesty Section 32.383	More than \$21,050,000	\$0	\$0
<u>Cost</u> - DOR Tax amnesty program Section 32.383	(\$1,156,047)	(\$10,272)	\$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	Could exceed <u>\$19,893,953</u>	<u>(\$10,272)</u>	<u>\$0</u>
 CONSERVATION COMMISSION			
<u>Additional revenue</u> - tax amnesty Section 32.383	<u>Unknown</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION	<u>Unknown</u>	<u>\$0</u>	<u>\$0</u>
 PARKS, AND SOIL AND WATER FUNDS			
<u>Additional revenue</u> - tax amnesty Section 32.383	<u>Unknown</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER	<u>Unknown</u>	<u>\$0</u>	<u>\$0</u>

SOURCES OF INFORMATION

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



Mickey Wilson, CPA
Director
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Ross Strope
Assistant Director
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