

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2480-01
Bill No.: HB 1296
Subject: Taxation and Revenue - Income; Tax Credits
Type: Original
Date: April 13, 2015

Bill Summary: This proposal would authorize an earned income credit.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	(\$54,574,573)	(\$54,499,000)	(\$54,499,000)
Total Estimated Net Effect on General Revenue	(\$54,574,573)	(\$54,499,000)	(\$54,499,000)

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

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 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 authorize a refundable Earned Income Tax Credit (EITC) to resident taxpayers in an amount equal to 20% of the federal EITC. BAP officials provided information from the federal Internal Revenue Service (IRS) Statistics of Income for Tax Year 2012, indicating Missouri taxpayers claimed \$1.222 billion in federal EITC and noted that would imply a 20% Missouri credit would reduce Total State Revenues by \$244.5 million. Using data provided by DOR, BAP officials then estimated that a non-refundable earned income tax credit would reduce Total State Revenue by \$58.8 million per year. Further, because this proposal would apply to tax years beginning January 1, 2015, the proposal would reduce tax revenues beginning in FY 2016.

Officials from the **Department of Revenue (DOR)** stated similar language in SB 40 LR 0341-01 would create the Missouri Earned Income Tax Credit Act. Beginning January 1, 2015, individuals could receive a credit of 20 percent of the allowable federal EITC against individual income taxes due.

Fiscal impact

DOR officials noted 530,692 Missouri taxpayers claimed federal EITC totaling \$1,215,416,612 in 2012 and assume if each taxpayer received a credit equal to 20 percent of the federal credit, the total reduction in tax would be \$243,083,322 in the first year the credit is authorized.

DOR officials also noted the legislation would require the Department to contract with one or more nonprofit groups to provide notice of the credit to eligible taxpayers, and to prepare an annual statistical report regarding the tax credits issued.

Administrative Impact

DOR officials assumed Personal Tax would require four additional Temporary Tax Employees for key-entry, four additional Revenue Processing Technicians I for verification of returns, correspondence and compliance assurance once Taxation processes the return, and one additional Management Analyst Specialist II to manage reporting and contract requirements.

ASSUMPTION (continued)

DOR officials assume Collections and Tax Assistance (CATA) would require two additional Tax Collections Technicians I for contacts on the delinquency and income tax phone lines; the new technicians would require CARES phone systems.

The DOR estimate of administrative cost for this proposal including four additional temporary employees and seven additional full time employees with related benefits, equipment, and expense totaled \$337,720 for FY 2016, \$356,245 for FY 2017, and \$359,926 for FY 2018.

Oversight notes this proposal would implement a state tax EITC program based on and dependent on the federal EITC program. Oversight assumes this proposal would change a limited number of computations on individual income tax returns and assumes the proposal would not have a significant impact on the number of returns filed. Oversight also notes a high percentage of income tax returns are prepared online, electronically, or by paid preparers, and assumes there would not be a significant number of additional errors resulting from the changes in this proposal.

Oversight therefore assumes existing DOR staffing would be adequate to implement this proposal. If unanticipated additional costs are incurred or if multiple proposals are implemented that increase DOR costs or the workload for DOR employees, resources could be requested through the budget process.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$75,573 based on 1,008 hours of programming to make changes to DOR systems.

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

Officials from the **University of Missouri - Economic and Policy Analysis Research Center (EPARC)** assume this proposal would, if enacted, create the Missouri Earned Income Tax Credit Act, authorizing an individual income tax credit equal to 20% of any earned income tax credit claimed by the taxpayer on the federal income tax return. The credit would not be refundable.

ASSUMPTION (continued)

EPARC officials estimated the fiscal impact of this proposal by preparing a simulation of Net Tax Due using existing provisions and the most recent data from 2013 as a baseline. A second simulation using the same data and existing provisions, with the addition of the proposed tax credit, indicated Net Tax Due would be reduced from the baseline \$5,124.717 million to \$5,070.218 million, a reduction of \$54.499 million.

EPARC officials noted the amount of General Tax Credits would be increased by \$221.555 million, but the balance of credits would not reduce Net Tax Due since the proposed tax credit is not refundable.

Oversight will use the EPARC estimate of fiscal impact for this proposal.

Oversight is aware that taxpayers could adjust their estimated tax payments or withholding in anticipation of reduced taxes; however, for fiscal note purposes, Oversight will indicate the entire first year fiscal impact for this proposal in the fiscal year in which the first tax returns affected by the proposal would be filed.

In response to similar language in SB 40 LR 0341-01, officials from the **Office of the Secretary of State (SOS)** stated many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. SOS officials noted their office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session.

SOS officials assume the fiscal impact of this proposal for Administrative Rules is less than \$2,500 and recognize this is a small amount, and do not expect additional funding would be required to meet these costs. However, SOS officials also recognize that many such bills may be passed by the General Assembly in a given year and 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 have no impact on their organization beyond existing resources.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE FUND			
<u>Cost - DOR</u>			
Contract programming	(\$75,573)	\$0	\$0
<u>Revenue reduction</u>			
Earned income tax credit	<u>(\$54,499,000)</u>	<u>(\$54,499,000)</u>	<u>(\$54,499,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$54,574,573)</u>	<u>(\$54,499,000)</u>	<u>(\$54,499,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

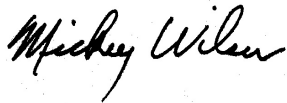
This proposal would authorize an earned income credit.

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

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SOURCES OF INFORMATION

Joint Committee on Administrative Rules
Office of Administration
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