COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4146-01
Bill No.: SB 1164
Subject: Taxation and Revenue - Income
Type: Original
Date: February 23, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	($90,326)	($44,856)	($45,590)
Total Estimated Net Effect on General Revenue Fund*	**($90,326)**	**($44,856)**	**($45,590)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Missouri College Guarantee Fund	$0	$0	$0
Total Estimated Net Effect on Other State Funds*	**$0**	**$0**	**$0**

***Assumes revenues of $11 million each year will be spent from the fund for scholarships for Missouri citizens to attend Missouri colleges, universities, vocational and technical schools.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Office of Administration - Division of Budget and Planning (BAP)** assume this bill would disallow the deduction for property tax paid to another state on nonresident tax returns. Based on data from the IRS Statistics of Income and the Department of Revenue, BAP makes the following assumptions:

- In Missouri in 2001, those with itemized deductions who claim a real estate (property) tax deduction have an average deduction of $1,677 and 91% of those with itemized deductions claim a real estate tax deduction.
- In 2001, there were 120,000 nonresident returns that claimed itemized deductions.
- Assuming that 91% of these returns claim a real estate (property) tax deduction, there would be 109,200 nonresident returns claiming a $1,677 deduction for real estate (property) tax paid to another state.

Based on these assumptions, Missouri would gain about $183 million in taxable income by disallowing this deduction. Assuming that this would be taxed at the 6% tax rate, the revenue gain would be about $11 million. This revenue will be transferred to the college guarantee fund. Therefore, the proposal has no impact on general revenue, but will raise total state revenues.

ASSUMPTION (continued)

Assuming this provision would not be effective until tax year 2004, the revenue impact would be manifest upon the filing of returns in FY 2005 and each fiscal year thereafter.

BAP assumes property taxes paid to other states will be greater in 2004 relative to 2001, thus increasing the impact of this proposal, but BAP does not have the requisite data to make such an estimate. This bill would have no impact on BAP.

Officials of the **Department of Revenue (DOR)** state this legislation disallows a deduction for property taxes paid to another state on nonresident income tax returns by requiring nonresident taxpayers to add-back any amount deducted on the taxpayer's federal return.

Administrative Impact: Personal Tax will have to manually verify that a nonresident has taken property taxes as an itemized deduction on their federal return by reviewing the attached Federal Schedule A. If a Schedule A is not attached, MINITS will need to be modified in order to send notification to those nonresident taxpayers of the need of this documentation. DOR has 125,000 nonresident returns that itemize. Therefore, Personal Tax will need 2 Tax Season Temporary Employees to handle the extra key entry and the schedule verification. Assuming a 15% error rate on those returns, Personal Tax will need one Tax Processing Technician to process financial errors and one Tax Processing Technician to process correspondence.

MINITS and Speedup will need to be modified. DOR estimates that 1,384 hours of programming and testing will be needed, at a cost of $46,170.

Revenue Impact: DOR does not have statistical data to determine the revenue impact of this legislation, and defers any revenue impact to BAP.

In response to SB 2 of the 2003 second special session, DOR stated the legislation requires nonresident taxpayers to include in the calculation of Missouri nonresident adjusted gross income any property taxes paid to another state. Taxpayers will be required to add any property taxes paid to another state on the Nonresident Income Schedule. The Division of Taxation will add another line to that schedule, but does not currently key the information on the schedule. Therefore, there is no additional impact to DOR for SB 2. However, since DOR assumes this legislation will require an additional line on the tax form that will be keyed and verified, **Oversight** will include DOR's requested costs to handle any increase in workload and necessary programming changes.

ASSUMPTION (continued)

State Treasurer's Office (STO) officials assume nonresidents will no longer be able to deduct property taxes paid to another state on their tax return. The Commissioner of Administration will give an estimate to STO for the net increase in the amount of state tax revenues collected. The treasurer shall transfer monthly from GR that amount to the Missouri College Guarantee Fund (173.830). STO assumes that the Commissioner will initiate the transfer. No impact to STO.

Coordinating Board of Higher Education officials did not respond to our fiscal note request.

This proposal would increase Total State Revenues.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE FUND			
Income - General Revenue			
Disallowance of property tax paid to other states on nonresident tax returns	$11,000,000	$11,000,000	$11,000,000
Transfer Out - Missouri College Guarantee Fund	($11,000,000)	($11,000,000)	($11,000,000)
Cost - Dept. of Revenue			
Personal Service (2 temp, 2 FTE-6 mo.)	($35,410)	($35,906)	($36,414)
Fringe Benefits	($8,214)	($8,419)	($8,629)
Expense and Equipment	($46,702)	($531)	($547)
Total Costs - DOR	($90,326)	($44,856)	($45,590)
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	**($90,326)**	**($44,856)**	**($45,590)**

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007

MISSOURI COLLEGE GUARANTEE FUND			
Transfer In - from General Revenue	$11,000,000	$11,000,000	$11,000,000
Costs - Scholarships	($11,000,000)	($11,000,000)	($11,000,000)
ESTIMATED NET EFFECT ON MISSOURI COLLEGE GUARANTEE FUND	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

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

DESCRIPTION

Currently, in certain cases, a nonresident may receive an itemized deduction on their federal return for property taxes paid to another state. Current Missouri law does not require that this amount be "added-back" on the Missouri return. Therefore, the deduction for property taxes paid to another state carries through to apply against the Missouri income tax of a nonresident. This act eliminates this deduction by requiring nonresidents to add-back the amount of the federal deduction on their Missouri tax return.

The proposal designates the additional revenue from this statutory change to the Missouri College Guarantee Fund.

DESCRIPTION (continued)

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

Department of Revenue
Office of Administration
  Division of Budget and Planning
State Treasurer's Office

NOT RESPONDING: Coordinating Board of Higher Education

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