COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4697-01
Bill No.: SB 1374
Subject: Taxation and Revenue - Income and Property
Type: Original
Date: March 30, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	($35,396)	Greater than $116,400,000	Greater than $116,400,000
Total Estimated Net Effect on General Revenue Fund	**($35,396)**	**Greater than $116,400,000**	**Greater than $116,400,000**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Blind Pension	$0	($205,000)	($421,000)
Total Estimated Net Effect on Other State Funds	**$0**	**($205,000)**	**($421,000)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 8 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**

Losses and income of approximately $42,000,000 in FY 2006 and $86,000,000 in FY 2007 net to $0.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Governor**, the **Department of Transportation**, and the **State Treasurer** indicated that the proposal would not directly affect their agencies.

Officials of the **Secretary of State (SOS)** stated that this proposal would change income and property tax laws. The Department of Revenue and the State Tax Commission could promulgate rules to implement the proposal. Based on experience with other divisions, the rules, regulations and forms issued by the Department of Revenue and Tax Commission could require as many as 36 pages in the *Code of State Regulations*. For any given rule, roughly half again as many pages are published in *Missouri Register* as in the *Code* because cost estimates and fiscal notes are not repeated in the *Code*. The estimated cost of a page in the *Missouri Register* is $23. The estimated cost of a page in the *Code of State Regulations* is $27. The estimated cost of publication in FY 2005 for this proposal is $2,076. Actual cost could be more or less and costs in future years would depend upon frequency and length of rules filed, amended, rescinded or withdrawn.

Secretary of State officials do not anticipate the need for additional staff as a result of this proposal; however, enactment of more than one similar proposal could, in the aggregate, require additional staff.

ASSUMPTION (continued)

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Office of Administration - Division of Budget and Planning** noted that several provisions of the proposal would affect total state revenue. They have deferred to the Department of Revenue and the University of Missouri for estimates of the effects of changes in the three-factor formula for apportioning business income to Missouri and the effects of creating a flat tax with new personal deduction levels. They did estimate the gain for excluding non-residents' deductions for property taxes paid to other states to be about $11,000,000 per year.

Officials of the State Tax Commission would request an Administrative Analyst III for six months each year to research and analyze factors affecting valuations and depreciation schedules for depreciable tangible personal property (this would include meetings with experts in evaluating various types of property and with assessors), draft the value tables and depreciation schedules, review the tables and schedules (this would include meeting with the same sorts of parties consulted in establishing the original tables and schedules), draft changes to the tables and schedules and rules and regulations.

Officials estimated that the revenue losses which political subdivisions would make up by revising their real property tax rates due to changes in the assessed value of motor vehicles would be about $41,905,460 in FY 2006 and $86,093,041 in FY 2007.

Oversight notes that the Blind Pension Fund property tax rate of $.03 per one hundred dollars assessed valuation (section 209.130, RSMo) would not be changed by this proposal. Oversight estimates losses to the Blind Pension Fund of about $205,000 in FY 2006 and $421,000 in FY 2007.

Officials of the **Department of Revenue** estimated the following administrative effects:

Three-factor formula (32.200) changes would require programming changes to the Corporations Income Tas System (CIONS). These changes would take 2,076 hours at a cost of $69,255.

The Customer Assistance Section would request a Tax Processing Technician for every 5,200 in-office contacts, a Tech for each 24,000 calls to 751-3505 and a Tech for every 15,000 calls to the 751-7200 line.

ASSUMPTION (continued)

Decoupling from Internal Revenue Code (IRC) (143.091) would require Department of Revenue to review changes to the IRC within sixty (60) days. DOR officials would request a Management Analyst to analyze IRC changes to determine effects on Missouri taxes and revenue and make reports for appropriate authorities.

Nonresident Property Tax Add-Back (143.121) - would require that Personal Tax Bureau personnel manually verify that a nonresident had taken property taxes as an itemized deduction on their federal tax return. This would be done by reviewing the attached federal Schedule A and contacting the filer if that schedule is not attached. Officials would request two (2) tax season temporary employees due to extra key entry and schedule verification. They would request two (2) Tax Processing Technicians: one to process errors and one to process additional correspondence.

The Missouri Individual Income Tax System (MINITS) and the Speedup would need updating. This would require 1,384 hours for programming and testing at a cost of $46,170.

Single Rate Tax (Sections 1 - 4) - would decrease the number of lines keyed and errors on income tax returns. It would also eliminate deductions and credits the Department of Revenue currently administers. Officials have not completed their analysis of the administrative impact of these provisions, but do estimate savings of over $250,000 per year.

The Department is working on an estimate of the effect of changes in the three-factor formula, but has not completed an analysis at this time.

Oversight assumes that programming changes would be made in FY 2006 and that additional employees would not be needed until January of 2006.

In response to a similar proposal from 2003, the University of Missouri estimated a $65,400,000 per year increase in revenue from flat tax provisions. That proposal (Fiscal Note 0484-01 for SB 27) included a $5,000 deduction for filers who could be claimed as a dependent. This one include a $1,500 deduction. The fiscal note for that proposal also included estimates of $40,000,000 to $300,000,000 in increased revenue due to elimination of tax credits.

FISCAL IMPACT - State Government	FY 2005 (6 Mo.)	FY 2006	FY 2007
GENERAL REVENUE FUND			
Income - Disallowed Non-resident Deductions	$0	$11,000,000	$11,000,000
Income - Flat Tax Rate	$0	$65,400,000	$65,400,000
Income - Disallowed Credits	$0	$40,000,000 to $300,000,000	$40,000,000 to $300,000,000
Savings - Department of Revenue (DOR)			
Personal Service	$0	Unknown	Unknown
Fringe Benefits	$0	Unknown	Unknown
Expense and Equipment	$0	Unknown	Unknown
Administrative Savings to DOR	$0	Greater than $250,000	Greater than $250,000
Cost - Department of Revenue			
Temporary Employees	$0	($16,038)	($16,519)
Personal Service (0, 3, 6 FTE)	$0	($68,496)	($141,103)
Fringe Benefits	$0	($34,997)	($62,256)
Expense and Equipment	$0	($40,710)	($1,910)
Administrative Costs to DOR	$0	($160,241)	($221,788)
Estimated Net Effect on DOR	$0	Greater than $89,759	Greater than 28,212
Cost - State Tax Commission (TAX)			
Personal Service (.5 FTE)	($23,550)	($24,257)	($24,984)
Fringe Benefits	($9,750)	($10,042)	($10,343)
Expense and Equipment	($2,096)	($150)	($150)
Administrative Cost to TAX	($35,396)	($34,449)	($35,477)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($35,396)**	**Greater than $116,400,000**	**Greater than $116,400,000**
BLIND PENSION FUND			
Loss - Reduced Personal Property Tax Collections	$0	($205,000)	($421,000)

ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**($205,000)**	**($421,000)**

FISCAL IMPACT - Local Government	FY 2005 (6 Mo.)	FY 2006	FY 2007
POLITICAL SUBDIVISIONS			
Income - Revised Rates on Real Property	$0	$41,905,460	$86,093,041
Loss - Reduced Personal Property Tax Collections	$0	($41,905,460)	($86,093,041)
ESTIMATED NET EFFECT ON POLITICAL SUBDIVISIONS	**$0**	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses, especially subchapter S corporations, could be affected by this proposal.

DESCRIPTION

This proposal would:

1) change the three-factor formula for apportioning business income to Missouri to 40% sales, 30% property and 30% payroll (current law sets these factors at one-third each);

2) reduce the percentage of true value at which motor vehicles are assessed from the current 33 and 1/3% rate by 20% (6 and 2/3%) per year beginning January 1, 2005 (beginning in 2010 the percentage would be one-half of one percent);

3) require political subdivisions to offset losses caused by reducing the assessment level on motor vehicles by proportionally revising their rates on the three classes of real property;

4) specify that for the true value in money of depreciable tangible personal property would be the installed fair market value of the property (the proposal would defines ‘depreciable tangible personal property and define “installed fair market value”);

5) require the State Tax Commission to establish tables to provide assessors with guidance as to the proper valuation of various types of property and the depreciation of property;

DESCRIPTION (continued)

6) require the Commission to review the tables periodically and at least at least every two years;

7) allow assessors to adjust an assessment to reflect obsolescence of property due to economic, functional or technological changes;

8) create a rebuttable presumption that the tables and the assessors adjustments are valid;

9) decouple Missouri's income tax law from the federal Internal Revenue Code (IRC) by setting the reference to the IRC in current law as being the IRC as it stood on January 1, 2004;

10) require the Department of Revenue to evaluate federal tax law changes as they might affect Missouri revenues and taxes, within sixty (60) days of a change to the IRC;

11) require nonresidents to add-back the amount of the federal deduction for property taxes paid to another state on their Missouri tax return;

12) replace the graduated income tax rates for individuals with a single tax rate of four and one-half percent;

13) replace most additions, subtractions, and deductions from Missouri adjusted gross income with a personal deduction of $10,000 per taxpayer, $20,000 for a combined return, $15,000 for a head of household, $20,000 for a surviving spouse, and $1500 for a dependent filer;

14) provide for adjustments (up or down as the case may be) to a filer's federal adjusted gross income for interest on obligations of the state or its political subdivisions and for interest on obligations of the United States Government (these provisions are the same as current law);

15) allow subtraction of Railroad Retirement benefits from federal adjusted gross income to the extent those benefits were not deducted in calculating federal adjusted gross income (this provision is the same as current law); and

16) provide both non-resident and partnership allocation and computation of Missouri individual income tax liability.

The act has an effective date of January 1, 2005.

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

DESCRIPTION (continued)

Revenue.

SOURCES OF INFORMATION

Office of Administration - Division of Budget and Planning
Department of Transportation
Department of Revenue
Office of the Governor
House of Representatives
Senate
Secretary of State
State Treasurer
State Tax Commission

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