

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5270-03
Bill No.: SCS for SB 1016
Subject: Banks and Financial Institutions; Courts; Estates, Wills, and Trusts; Revenue Dept.; Taxation and Revenue - General; Workers Compensation
Type: Original
Date: April 12,2010

Bill Summary: Would provide the Department of Revenue with various mechanisms for the enforcement and collection of state taxes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	(\$137,022) to More than \$100,000	(\$144,590) to More than \$100,000	(\$148,927) to More than \$100,000
Total Estimated Net Effect on General Revenue Fund	(\$137,022) to More than \$100,000	(\$144,590) to More than \$100,000	(\$148,927) to More than \$100,000

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 12 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
School District Trust	Unknown	Unknown	Unknown
Conservation Commission	Unknown	Unknown	Unknown
Parks, and Soil and Water	Unknown	Unknown	Unknown
Total Estimated Net Effect on <u>Other</u> State Funds	Unknown	Unknown	Unknown

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	4	4	4
Total Estimated Net Effect on FTE	4	4	4

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government	Unknown	Unknown	Unknown

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** stated that 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 SOS 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 in excess of what 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 **Office of the Attorney General (AGO)** assumed in response to a previous version of this proposal that legal counsel for the Department of Revenue (DOR) would file certificates of tax lien with circuit courts and initiate garnishment actions. The proposal would also allow DOR to assert liens in workers' compensation proceedings and civil litigation, which are likely to be referred to AGO. The fiscal impact is unknown, as it will depend upon the number of such referrals.

Oversight assumes the impact of this proposal on the AGO would be minimal and could be absorbed with existing resources. If unanticipated costs are incurred or if multiple proposals are enacted which increase the AGO workload, resources could be requested through the budget process.

ASSUMPTION (continued)

Officials from the **Office of Administration, Division of General Services, Risk Management** assume this proposal would prohibit any payment from the state legal expense fund for settlement of any liability claim except upon the production of a no tax due statement from the Department of Revenue. In fiscal year 2009 there were 817 payments made on claims from the legal expense fund. The vast majority of the payments made were for legal services and property damage claims resulting from vehicle accidents involving state vehicles. Risk Management officials did not include an estimate of the cost to implement the proposal.

Oversight assumes the impact of this proposal on Risk Management would be minimal and could be absorbed with existing resources.

Officials from the **Department of Insurance, Financial Institutions, and Professional Registration**, and the **City of Centralia** assume this proposal would have no fiscal impact on their organizations.

Officials from the **Office of State Courts Administrator, the Department of Labor and Industrial Relations**, and **St. Louis County** assumed that a previous version of this proposal would have no fiscal impact on their organizations.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume this proposal would not result in additional costs or savings to their organization. BAP officials assume the proposal would increase general and total state revenue by improving tax collection procedures on delinquent taxes. Since these are existing taxes, there would be no impact from Hancock Amendment and related constitutional limitations.

BAP officials estimated that this proposal would increase general revenue by \$8,089,000 in FY 2011, \$16,875,000 in FY 2012, and \$31,875,000 in FY 2013, and would result in total additional collections including local revenue by \$10,786,000 in FY 2011, \$21,500,000 in FY 2012, and \$36,500,000 in FY 2013.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would provide additional enforcement tools for the collection of delinquent taxes.

- * Beginning January 1, 2012 a statement of no tax due would be required prior to the issuance or renewal of any city, county, or state occupation license for conducting business. A state agency responsible for issuing a license could enter into an agreement with DOR to receive tax information for applicants.
- * No funds could be expended from the state legal expense fund except upon production of a statement of no tax due from DOR.
- * The Director could file a lien and issue an order directing any person to withhold and pay over to the Department, assets belonging to a taxpayer. This provision would define the process for withholding earnings and other income from taxpayers.
- * DOR could implement a financial institution match system for identifying and seizing the financial assets of delinquent taxpayers.
- * DOR could implement an administrative certificate of tax lien.
- * A notice of deficiency would become a final assessment within thirty days after the date on which it was mailed, or 150 days if the taxpayer is outside the United States.
- * DOR could collect debts from estates.
- * The time allowed for a taxpayer to appeal DOR assessments would be reduced. The time to request an informal review of an assessment would be reduced from 60 to 30 days. The time to appeal an assessment to the Administrative Hearing Commission would be reduced from 60 to 30 days after the date of the assessment.

ASSUMPTION (continued)

DOR officials assume this proposal would create a positive impact of approximately \$36 million once fully implemented as shown in the following table.

	FY 2011	FY 2012	FY 2013
Administrative Garnishments	\$1,500,000	\$3,000,000	\$3,000,000
Liens	\$1,300,000	\$3,000,000	\$3,000,000
Probate No Tax Due	\$400,000	\$1,000,000	\$1,000,000
Information from Financial Institutions	\$2,600,000	\$6,000,000	\$6,000,000
Enhanced No Tax Due	0	\$3,000,000	\$18,000,000
Shorten Time Between Notices	\$5,000,000	\$5,000,000	\$5,000,000
Total	\$10,800,000	\$21,000,000	\$36,000,000

Oversight assumes this proposal could result in significant additional collections of delinquent income taxes and for fiscal note purposes, will indicate additional revenue in excess of \$100,000 per year for the General Revenue Fund. Oversight assumes that the proposal could also result in additional collections of sales and other taxes and will indicate unknown additional revenues for other state funds which receive sales tax revenues and for local governments.

Administrative impact

The Department and ITSD-DOR would need to make programming changes to multiple tax systems.

DOR officials included their estimate of personnel and related costs as follows. Collections and Tax Assistance would need one FTE Tax Collection Technician I (Range 10, Step L) for every additional 15,000 contacts annually to the delinquent tax call center, one FTE Revenue Processing Technician I (Range 10, Step L) for every additional 4,800 contacts annually to the tax assistance offices, and one FTE Revenue Processing Technician I (Range 10, Step L) for every additional 4,800 contacts annually to Collections Enforcement.

ASSUMPTION (continued)

The total DOR estimate of additional cost to implement the proposal including four additional employees and the related benefits, equipment, and expense was \$158,603 for FY 2011, \$168,326 for FY 2012, and \$173,377 for FY 2013.

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 for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expenditures in accordance with OA budget guidelines. Finally, Oversight assumes that a limited number of additional employees could be accommodated in existing office space.

Oversight assumes the DOR estimate of expense and equipment cost for additional FTE could be overstated. If DOR is able to use existing equipment such as desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly \$5,000 per employee.

IT Impact

DOR provided an estimate of the IT cost to implement this proposal of \$169,176, based on 6,384 programmer hours to make changes to various tax systems.

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

ASSUMPTION (continued)

Officials from the **Department of Public Safety, Office of the Director**, and the **Missouri Highway Patrol** assume this proposal would have no fiscal impact on their organizations.

Firearms authorization for Department of Revenue Criminal Investigators

This provision would authorize Department of Revenue (DOR) criminal investigators to carry firearms at all times if they have a conceal and carry endorsement.

Officials from the **Department of Revenue** stated that 24 current employees would qualify for the authorization to carry concealed firearms under this proposal. DOR officials stated that DOR would not incur any cost because it would limit the authorization for an endorsement to employees already qualified.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE FUND			
<u>Additional Revenue</u> - delinquent tax collections	<u>More than</u> <u>\$100,000</u>	<u>More than</u> <u>\$100,000</u>	<u>More than</u> <u>\$100,000</u>
Cost - Department of Revenue			
Salaries (4.0 FTE)	(\$75,600)	(\$93,442)	(\$96,245)
Benefits	(\$39,645)	(\$49,001)	(\$50,471)
Equipment and expense	(\$21,777)	(\$2,147)	(\$2,211)
Total	<u>(\$137,022)</u>	<u>(\$144,590)</u>	<u>(\$148,927)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$137,022) to</u> <u>More than</u> <u>\$100,000</u>	<u>(\$144,590) to</u> <u>More than</u> <u>\$100,000</u>	<u>(\$148,927) to</u> <u>More than</u> <u>\$100,000</u>
Estimated Net FTE Effect on General Revenue Fund	4	4	4
SCHOOL DISTRICT TRUST FUND			
<u>Additional Revenue</u> - delinquent tax collections	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
CONSERVATION COMMISSION FUND			
<u>Additional Revenue</u> - delinquent tax collections	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
PARKS, AND SOIL AND WATER FUNDS			
<u>Additional Revenue</u> - delinquent tax collections	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUNDS	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2011 (10 Mo.)	 FY 2012	 FY 2013
LOCAL GOVERNMENTS			
<u>Additional Revenue</u> - delinquent tax collections	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>

FISCAL IMPACT - Small Business

This proposal could have a minor fiscal impact to small businesses which would be required to obtain and present the statement of no tax due when applying for a business license, applying for a payment from the state Legal Expense Fund, or to withhold and pay to DOR assets which are subject to a DOR lien.

FISCAL DESCRIPTION

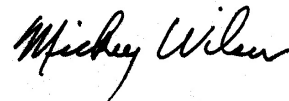
This proposal would provide the Department of Revenue with various mechanisms for the enforcement and collection of state taxes.

- * A no tax due statement would be required for the issuance of any state or local business license, and to receive payments from the state legal defense fund.
- * The director of the Department of Revenue would have the authority to file a certificate of lien in circuit court to garnish wages, payments, and assets owed to a delinquent taxpayer.
- * The Department of Revenue would be authorized to implement and operate a financial institution match system to identify and seize financial assets of delinquent taxpayers.
- * The director of the Department of Revenue would be authorized to place a lien on a taxpayers workers' compensation benefits, distributive share of a decedent's estate, or claims made by a taxpayer in law suits.
- * The proposal would reduce the time allowed for a taxpayer to respond to notices from the Department of Revenue regarding income, corporate income, sales and use, and corporate franchise taxes, and would allow the Department of Revenue to impose penalties and interest on outstanding liabilities for such taxes more quickly.
- * Department of Revenue criminal investigators would be authorized to carry firearms at all times if they have a conceal and carry endorsement.

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

Office of State Courts Administrator
Office of the Attorney General
Office of Administration
 Division of Budget and Planning
 Division of General Services
 Risk Management
Department of Labor and Industrial Relations
Missouri Highway Patrol
Department of Public Safety
 Office of the Director
Department of Revenue
Department of Insurance, Financial Institutions, and Professional Registration
St. Louis County
City of Centralia



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