

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1844-02
Bill No.: SB 374
Subject: Agriculture and Animals; Emergencies; Taxation and Revenue - Income
Type: Original
Date: March 10, 2015

Bill Summary: This proposal would provide an income tax exemption for payments from agricultural disaster programs.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	(Up to \$30,737,827)	(Up to \$15,300,000)	(Up to \$15,300,000)
Total Estimated Net Effect on General Revenue	(Up to \$30,737,827)	(Up to \$15,300,000)	(Up to \$15,300,000)

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

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

Oversight was unable to receive agency responses in a timely manner due to the short fiscal note request time. Oversight has prepared this fiscal note with the best current information that we have, or with prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will prepare an updated fiscal note and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would reduce Total State Revenues (TSR) by \$15.3 million and would impact the calculation required under Article X, Section 18(e) of the state constitution.

BAP officials noted this proposal would allow a taxpayer to deduct from Missouri adjusted gross income, any payments from any program that provides compensation to agricultural producers who have suffered losses due to a disaster, emergency, or decline in market price/value. BAP officials used data provided by the United States Department of Agriculture (USDA) to estimate this proposal would exempt as much as \$255.7 million in income from tax.

Since deductions do not reduce taxes on a dollar for dollar basis, BAP officials assume this exemption would reduce TSR by $(\$255,700,000 \times 6\%) = \15.3 million. The proposal would allow the deduction for 2014; therefore, the impact in fiscal year 2016 could be as much as \$30.7 million. The annual revenue reduction could also vary in the future due to the impact of SB 509 (2014).

Oversight notes the BAP estimate is based on an assumption that all such payments would be subject to the maximum personal income tax rate of 6% for FY 2016 and FY 2017, and a potentially reduced rate for FY 2018. Oversight also notes the reduced rate for 2017 returns filed in FY 2018 is contingent on net general revenue collections exceeding a net general revenue collections threshold which may or may not occur. Finally, some of the payments may be received by individuals who would be taxed at a lower rate due to total taxable income less than \$9,000.

Oversight will include an estimated revenue reduction in this fiscal note based on the BAP response; Oversight will indicate an amount up to \$30.7 million in FY 2016, for 2014 amended returns and 2015 returns which would be filed in FY 2016, and an amount up to \$15.3 million for FY 2017 and FY 2018.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** noted the proposal would, effective January 1, 2014, allow a subtraction from the federal adjusted gross income of the amount of income an agricultural producer receives to compensate for losses because of disaster, emergency, or decline in market prices. The provisions in Subdivision (10) allow for the subtraction from the taxpayer's federal adjusted gross income to the extent the taxpayer included the payment in his or her federal adjusted gross income.

DOR officials assumed Personal Tax would require programming and form changes, and two additional Revenue Processing Technicians I for contacts on the delinquent and non-delinquent tax lines.

DOR officials provided an estimate of the administrative cost to implement the proposal including two additional employees; the total including additional employees, benefits, equipment, and expense, was \$81,681 for FY 2016, \$84,086 for FY 2017, and \$84,960 for FY 2017.

Oversight notes this proposal would change a limited number of computations on income tax returns and would not be expected to have a significant impact on the number of returns filed. Oversight notes a significantly 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 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.

DOR officials also provided an estimate of the IT cost to implement the proposal of \$37,827 based on 504 hours of programming at the current state contract rate of \$75 per hour to make changes to DOR systems.

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

Officials from **Office of the Secretary of State**, the **Joint Committee on Administrative Rules** and the **Department of Agriculture** assume this proposal would not have a fiscal impact to their organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE FUND			
<u>Cost - DOR</u>			
Computer programming	(\$37,827)	\$0	\$0
<u>Revenue reduction</u>	(Up to	(Up to	(Up to
Tax exemption	<u>\$30,700,000)</u>	<u>\$15,300,000)</u>	<u>\$15,300,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(Up to <u>\$30,737,827)</u>	(Up to <u>\$15,300,000)</u>	(Up to <u>\$15,300,000)</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

This proposal would have a direct fiscal impact on businesses involved in agriculture.

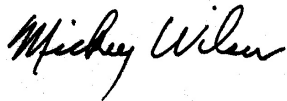
FISCAL DESCRIPTION

This proposal would provide an income tax exemption for payments in all tax years beginning on or after January 1, 2014 for income received as payment from any program which compensates agricultural producers who have suffered a loss as a result of a disaster, emergency, or decline in market prices or values.

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

Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Agriculture
Office of the Secretary of State
Department of Revenue



Mickey Wilson, CPA
Director
March 10, 2015

Ross Strobe
Assistant Director
March 10, 2015