

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1986-02
Bill No.: SB 462
Subject: Federal - State Relations; Healthcare; Taxation and Revenue - Income
Type: Original
Date: April 1, 2015

Bill Summary: This proposal would create an income tax deduction for certain penalties assessed under the Affordable Care Act and paid on a federal return.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	(\$2,337,584)	(\$4,500,000)	(\$5,600,000)
Total Estimated Net Effect on General Revenue	(\$2,337,584)	(\$4,500,000)	(\$5,600,000)

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 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

Officials from the **Department of Revenue (DOR)** assume this proposal would provide individual taxpayers with a new deduction from Missouri adjusted gross income for amounts assessed and paid due to the Affordable Care Act.

DOR officials stated they used the federal Congressional Budget Office estimates to determine the potential impact of the deduction. The Department assumed that 1.88 percent of the federal individual penalty would be attributable to Missouri residents.

DOR officials stated their estimate of the impact of this proposal to Total State Revenue as a cost of \$2.3 million in FY 2016, \$4.5 million in FY 2017, and \$5.5 million in FY 2018.

Administrative impact

DOR officials assume their organization would be required to make form and programming changes. In addition, Personal Tax would require two additional Revenue Processing Technicians I (Range 10, Step L) for error correction and additional correspondence, and Collections and Tax Assistance would require two additional Tax Collection Technicians I (Range 10, Step L) for the delinquent and non-delinquent tax lines since there would be additional customer contacts with questions regarding the deduction and notice of adjustments. Each technician would require CARES equipment and license.

The DOR estimate of administrative cost for this proposal including four additional employees and the related benefits, equipment, and expense, totaled \$146,449 for FY 2016, \$168,170 for FY 2017, and \$169,914 for FY 2018.

Oversight notes this proposal would change a limited number of computations on individual income tax returns and would not be expected to have an impact on the number of returns filed. Oversight also notes a significantly high percentage of income tax returns are prepared online, electronically, or by paid preparers. Oversight assumes there would not be a significant number of additional errors resulting from the changes in this proposal; and 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.

ASSUMPTION (continued)

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$37,584 based on 501 hours of programming at the current state contract rate for IT services.

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

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would allow individuals to deduct penalties assessed through the ACA, from Missouri taxable income.

BAP officials used the federal Congressional Budget Office (CBO) estimates that individuals will face penalties of \$2 billion in 2015, \$4 billion in 2016, and \$5 billion in 2017. BAP officials estimate that about 1.88% of the US population resides in MO; therefore, the estimated penalties paid by Missouri residents would be \$37.6 million, \$75.2 million, and \$94.0 million during those years.

Oversight used the BAP information to prepare following table of estimated individual impact of individual penalties, in millions of US dollars.

Fiscal year	Estimated Penalties	Maximum Individual Tax Rate	Estimated Revenue Reduction
2016	\$37.6	6.0%	\$2.3
2017	\$75.2	6.0%	\$4.5
2018	\$94.0	6.0%	\$5.6

Oversight will use these estimates of fiscal impact for this proposal.

BAP officials noted the federal exchanges are currently under court review and if the federal exchange subsidies are struck down, BAP would expect the number of uninsured to increase; which would in turn increase the impact on the fiscal note. BAP does not currently have a way to estimate what that additional impact may be.

ASSUMPTION (continued)

Oversight does not have any independent information on the impact of the elimination of federal exchanges and will not include any fiscal impact for the potential effect of the elimination of federal exchanges.

Oversight also notes current law provides for the maximum individual income tax rate to be reduced provided a specific total net revenue threshold is met; Oversight has no information to determine if that threshold will be met, and will use the current maximum individual income tax rate for this fiscal note.

Officials from the **University of Missouri - Economic and Policy Analysis Research Center** stated they did not have the information required to prepare an estimate of the fiscal impact of this proposal.

Officials from the **Office of the Secretary of State** and the **Joint Committee on Administrative Rules** assume this proposal would have no impact on their organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE FUND			
<u>Cost - DOR</u>			
IT System Programming	(\$37,584)	\$0	\$0
<u>Revenue reduction -</u>			
Deduction for ACA penalties	<u>(\$2,300,000)</u>	<u>(\$4,500,000)</u>	<u>(\$5,600,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$2,337,584)</u>	<u>(\$4,500,000)</u>	<u>(\$5,600,000)</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 not have a direct fiscal impact to small businesses; however, the proposal would provide a tax deduction for the owners of small businesses which become subject to the specified federal penalties.

FISCAL DESCRIPTION

This proposal would create an income tax deduction for certain penalties assessed and paid on a federal return.

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 the Secretary of State
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Revenue
University of Missouri
 Economic and Policy Analysis Research Center

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