COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2028-02
Bill No.: SB 562
Subject: Taxation & Revenue - Property; Revenue Dept.; Motor Vehicles
Type: Original
Date: March 26, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	$0	($257,282,256)	($360,966,740)
Total Estimated Net Effect on All State Funds	**$0**	**($257,282,256)**	**($360,966,740)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this legislation phases in a refundable tax credit for personal property taxes paid on a motor vehicle. Beginning January 1, 2002, an individual taxpayer with a Missouri adjusted gross income (AGI) of $25,000 or less , or married taxpayers filing jointly with a Missouri AGI of $50,000 or less can claim the credit. Beginning January 1, 2003, an individual taxpayer with a Missouri AGI of $37,500 or less , or married taxpayers filing jointly with a Missouri AGI of $75,000 or less can claim the credit. Beginning January 1, 2004, an individual taxpayer with a Missouri AGI of $50,000 or less , or married taxpayers filing jointly with a Missouri AGI of $100,000 or less can claim the credit. Beginning January 1, 2005, all taxpayers can claim the credit.

DOR assumes the Office of Administration, Budget and Planning and the Tax Commission will estimate the general revenue impact.

The DOR, Division of Taxation estimates this tax credit will have a 5% impact on the processing of returns. In order to maintain current processing time, the Department will need one Tax Processing Technician for six months for every 75,000 returns for processing and verifying, and one Tax Processing Technician for every 3,000 pieces of correspondence received regarding this credit. One Tax Processing Technician will be needed for every 30,000 errors generated by this credit. Customer Assistance anticipates additional phone calls and walk-ins from this legislation and will need one Collection Technician I for every 24,000 calls per year and one Field Agent for every 1,285 walk-ins received due to this legislation.

According to COA Budget and Planning, there are 985,190 taxpayers eligible for the tax credit in FY03, 1,345,824 taxpayers eligible in FY04, and 1,603,448 taxpayers eligible in FY05. Using these figures, the Department will need **seven Tax Processing Technicians** during tax season in FY03, **nine Tax Processing Technicians** during tax season in FY04, and **ten Tax Processing Technicians** during tax season in FY03 in order to maintain current processing levels. The Department cannot determine at this time the number of errors this legislation will create, or the additional pieces of correspondence and phone calls that will be received due to this credit. Any additional FTE needed will be requested during the normal budget process.

DOR assumes this legislation will require modifications to the individual income tax system. The Division of Taxation estimates these modifications, including programming changes, will require 1,730 hours of contract labor at a cost of $57,713. Modifications to the income tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of $11,323 is requested for implementation costs.

ASSUMPTION (continued)

Officials of the **Office of Administration - Division of Budget and Planning (BAP)** state this legislation allows an individual income tax credit for personal property tax on vehicles.

In FY00 personal property tax on vehicles was $476,600,000 and 1,994,230 returns were filed. Growth in vehicle tax receipts is assumed to be 5% annually, and the number of returns is assumed to grow at 2% annually. According to the 2000 Statistical Abstract Table 1031, 91.9% of households own a car. In FY03 (tax year 2002) the number of single returns with AGI of $25K or joint returns with AGI of $50K is 1,072,024, 91.9% or 985,190 are assumed to own a car. The average vehicle tax in FY03 is assumed to be $261.00, therefore the tax loss is $257.1 million. In FY04, the number of single returns with AGI of $37.5K or joint returns with AGI of $75K is 1,464,444, 91.9% or 1,345,824 are assumed to own a car. The average vehicle tax in FY04 is assumed to be $268.00, therefore the tax loss is $360.7 million. In FY05 the number of single returns with AGI of $50K or joint returns with AGI of $100K is 1,744,775, 91.9% or 1,603,448 are assumed to own a car. The average vehicle tax in FY05 is assumed to be $276.00, therefore the tax loss is $ 442.6 million. In FY06 there is no income limit on claiming the credit, the revenue loss would be $638.7 million.

Officials of the **Missouri Tax Commission (TAX)** assume this bill will have no fiscal impact on their agency. TAX states the total amount of personal property tax on motor vehicles collected over the past 4 years is as follows:

$ 476,618,000	1999
$ 441,000,000	1998
$ 419,000,000	1997
$ 401,000,000	1996

1990 Census Data indicates that there were 2,199,129 housing units in the State of Missouri , of those 2 million units the breakdown of how many had "x" number of cars breaks down as follows (note, this is not how many CARS there ARE, just how many housing units had none, one, two, etc.):

None	191, 452
1	651, 745
2	771, 667
3	256, 216
4	68, 180
5 or more	21, 946

TAX has been unable to tie in the number of houses with multiple cars with the number of tax returns filed. The problem is TAX does not have any numbers that indicate how many cars are
ASSUMPTION (continued)

owned by how many people in each income category. Using a standard value of say a 1994-95 Ford Taurus, TAX can project with reasonable accuracy, that in tax year 2005 there will be about a $532,000,000 loss.

The state total of the ASSESSED VALUE of Motor Vehicles for the past 3 years is:

1997	$ 7,201,890,114
1998	$ 7,487,490,915
1998	$ 8,063,079,159

The average tax rate for 1999 was $5.92 per $100 value (.0592). The DOR Comprehensive Annual Financial Report for FY99 indicates 4,385,552 vehicle registrations of Passenger, trucks, motorcycles and RVs. By dividing the total assessed value by the total number of registered vehicles, you end up with $ 8,063,079,159 / 4,385,552 = average assessed value of $1,838, which translates into an average market value of $5,514, which is pretty low.

Oversight assumes DOR will require certification of eligibility for the tax credit by those applying for the credit. Failure to verify eligibility could result in costs beyond amounts estimated.

This legislation will reduce total state revenues.

FISCAL IMPACT - State Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
GENERAL REVENUE FUND			
Loss to General Revenue Fund			
Personal property tax credit	$0	($257,100,000)	($360,700,000)
Cost - Department of Revenue			
Temp. Personal Service	$0	($126,710)	($200,384)
Fringe Benefits	$0	($38,963)	($61,618)
Equipment & Expenses	$0	($16,583)	($4,738)
Programming changes	($69,036)	$0	$0
Total Costs - DOR	($69,036)	($182,256)	($266,740)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($69,036)**	**($257,282,256)**	**($360,966,740)**

FISCAL IMPACT - Local Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
	$0	$0	$0

FISCAL IMPACT - Small Business

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

DESCRIPTION

This act would allow a taxpayer who is the owner of a motor vehicle to claim a credit against the taxpayer's state tax liability in the amount of the personal property tax paid on the vehicle.

Beginning in 2002, the credit is available for individuals with Missouri adjusted gross income of $25,000 or less. The credit is then phased in to include: in 2003, individuals earning $37,500 or less; in 2004, individuals earning $50,000 or less; and, in 2005 and thereafter, all individual taxpayers regardless of income. The credit is also available for married couples filing a joint return, with the qualifying income amounts being double that shown for individuals. If the amount of the credit exceeds a taxpayer's tax liability in any one year, the excess is refunded to the taxpayer.

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
Missouri Tax Commission

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