COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4085-19
Bill No.: SCS for SB Nos. 617, 611 & 667
Subject: Taxation and Revenue - Income, Taxation and Revenue - General, Taxation and Revenue - Sales and Use, Tax Credits, Motor Fuel
Type: Original
Date: February 26, 2018

Bill Summary: This proposal modifies several provisions relating to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented
General Revenue	($261,854,074 to $293,854,074)	($146,694,155)	($168,395,740)	($420,895,740)
Total Estimated Net Effect on General Revenue	**($261,854,074 to $293,854,074)**	**($146,694,155)**	**($168,395,740)**	**($420,895,740)**

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the increase/decrease in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

Note - §142.803 - The Motor Fuel Tax is increased $0.2 per gallon each year for three years.

Note - §143.011 - Four reductions to the individual income tax brackets based on net general revenue reduction could be completely phased in by FY 2025.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 45 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented
Parks, Soil & Water	$0	$300,000	$500,000	$500,000
Conservation Commission	$0	$300,000	$600,000	$600,000
School District Trust	$0	$2,500,000	$5,000,000	$5,000,000
State Road Fund	$48,724,832	$107,400,000	$175,700,000	$176,500,000
Capitol Complex	Up to $20,700,000	Up to $20,700,000	Up to $20,700,000	Up to $20,700,000
Total Estimated Net Effect on Other State Funds	**$69,424,832**	**$131,200,000**	**$202,500,000**	**$203,300,000**

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented
General Revenue	4 FTE	4 FTE	4 FTE	4 FTE
Total Estimated Net Effect on FTE	**4 FTE**	**4 FTE**	**4 FTE**	**4 FTE**

☒ 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 2019	FY 2020	FY 2021	Fully Implemented
Local Government	**($82,800,000)**	**($69,200,000)**	**($30,200,000)**	**($29,900,000)**

FISCAL ANALYSIS

ASSUMPTION

§32.070, Chapters 66, 67 and 144 Streamlined Sales and Use Tax Agreement (SSUTA)
Officials at the **Office of Administration Division of Budget and Planning** (**B&P**) assume this section directs the director of the Department of Revenue to join the Streamlined Sales and Use Tax Agreement. Based on actual SSUTA collections in other states, B&P estimates this proposal could generate $21.2 million in Total State Revenues annually, between General Revenue, Conservation Commission Fund, Parks, Soil & Water Fund and the School District Trust Fund. However, the full amount may not be collected during the first year, due to the administrative processes of becoming a full-member state of the SSUTA. B&P notes that some of the increase to local tax collections will be offset by the removal of exemptions from sales tax holidays.

Officials at the **Department of Revenue** (**DOR**) assume this section of law may allow the state to enter the Streamlined Sales and Use Tax Agreement, which may allow Missouri to collect use tax from out-of-state sellers. If compliant, this may increase State Revenue by an estimated $21.2 million, once fully implemented.

The Excise Tax Section will require two Revenue Processing Technicians ($26,340) for return processing and correspondence. The Sales Tax Section does not envision an FTE impact for the Sales Tax area, but rule writing will create a significant impact for which we will need additional managerial assistance. Sales Tax requires one Management Analyst Specialist I ($38,304).

The Integrated Tax System will incur additional costs of $662,114 to implement the provisions of this legislation.

Oversight will show the FTE and computer upgrade costs in the fiscal note.

Officials at the **Department of Natural Resources** assume the SSUTA focuses on improving sales and use tax administration systems for all sellers and for all types of commerce. The SSUTA applies primarily to the retail transactions by sellers who do not have a physical location in the state.

According to a 2009 University of Tennessee study – State and Local Sales Tax Revenue Losses from Electronic Commerce, total state revenues that Missouri could gain from collecting sales tax on e-commerce in FY 2012 is estimated at $210 million.

The Department's Parks and Soils Sales Tax Funds are derived from one-tenth of one percent sales and use tax pursuant to Article IV Section 47(a) of the Missouri Constitution. Any increase

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in sales tax collected would increase revenue to the Parks and Soils Sales Tax Funds.

The Department assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Officials at the **Department of Conservation** assume an unknown fiscal impact but greater than $100,000. The Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax pursuant to Article IV Section 43 (a) of the Missouri Constitution. Any increase in sales and use tax collected would increase revenue to the Conservation Sales Tax funds. However, the initiative is very complex and may require adjustments to Missouri sales tax law which could cause some downside risk to the Conservation Sales Tax. The Department assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Officials at the **Missouri Senate** assume there is no fiscal impact from this proposal.

In response to a previous version, officials at the **Missouri House of Representatives** assumed any expenses incurred by the House member can be absorbed with exiting appropriations.

Oversight notes that B&P and DOR estimate the increased revenue to the state would be $10.6 million in FY 2020 and $21.2 million each fiscal year starting in FY 2021. Both estimate the local political subdivisions would receive $9.1 million in FY 2020 and $18.3 million each fiscal year starting in FY 2021. Oversight will show in the fiscal note the projections by B&P and DOR.

§135.352 Missouri Low Income Housing Tax Credit (MOLIHTC)
Officials at the **B&P** assume this section would create an authorization cap of $135 million for the 9% LIHTC program. B&P notes that while the aggregate cap is to begin on July 1, 2018 this proposal would not be in effect until August 28, 2018. For the purposes of this fiscal note, B&P assumes that more than the $135 million cap will be authorized before this proposal takes effect; therefore, the impact of the authorization cap will not be felt until FY 2020. The three-year average annual authorizations for the 9% LIHTC program were $141.1 million from FY 2015-FY 2017. Therefore, B&P estimates that tax credit authorizations for low-income housing would need to be reduced by $6.1 million per year to meet the new cap requirement. Using historical authorization and redemption data, B&P estimates that this section could increase Total State Revenue and General Revenue by $0 in FY 2020 and $6.1 million once fully implemented (FY 2038).

ASSUMPTION (continued)

Officials at the **DOR** assume that beginning July 1, 2018, §135.352 creates a cap for tax credits under §135.350 to §135.363, the Low Income Housing tax credit, to $135 million annually. In FY 2017 the state redeemed an estimated $149.8 million LIHTC. A cap on this tax credit may increase State Revenues $6.1 million when fully implemented.

Officials at the **Missouri Housing Development Commission** (**MHDC**) assume this proposal reduces the amount of 9% MOLIHTCs available for authorizations per fiscal year beginning in FY 2019.

Using the 2018 federal LIHTC allocation as a base, Missouri's current statute allows for the following authorizations:

4% MOLIHTC: $6 million per year / $60 million total ten years
9% MOLIHTC: $14.6 million per year / $146 million total ten years
TOTAL: 60,000,000 + 146,000,000 = $206,000,000

The data below reflects the difference between the current amount of MOLIHTC available for authorizations and the reduction proposed.

Fiscal Year	Authorization / Amount of MOLIHTC Permitted Under Current Statute	Authorization / Amount of MOLIHTC Permitted Under Proposal	Difference
FY 2018	$206,000,000	N/A	
FY 2019	$206,000,000	$135,000,000	$71,000,000
FY 2020	$206,000,000	$135,000,000	$71,000,000
FY 2021	$206,000,000	$135,000,000	$71,000,000

The table above compares the maximum authorization amount of MOLIHTC available under current law to the maximum authorization amount of MOLIHTC available under this proposal. MOLIHTC is not issued until the affordable housing development for which it was authorized is ready for occupancy – typically two years after authorization. One tenth of the total amount of MOLIHTC issued is eligible to be redeemed each year for the following ten years. The above table reflects the total ten year amount. The effective date of the reduced cap in this proposal is FY 2019; however, the full impact to General Revenue associated with MOLIHTC issuances,

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under the proposed cap, will not occur until FY 2021.

Note: The FY 2018 Qualified Allocation Plan (QAP) approved by MHDC's Board of Commissioners on December 19, 2017 authorizes no MOLIHTC.

Oversight notes that on December 19, 2017, the MHDC approved a Qualified Allocation Plan that does not allow for the MOLIHTC credits to be issued. This Qualified Allocation Plan is effective for FY 2018 and continues until such time as another Qualified Allocation Plan is adopted. Oversight notes the Qualified Allocation Plan may govern the actions of the MHDC but does not impact statute. For fiscal note purposes, Oversight will show the impact of this proposal as it impacts the statutes.

Oversight notes that this portion of the proposal would limit the amount of authorized credits from its current match of the federal amount to $135 million annually beginning July 1, 2018 (FY 2019). Oversight notes according to the Tax Credit Analysis submitted in January 2018, by the Department of Economic Development and the Missouri Housing Development Commission regarding this program, the Missouri Low-Income Housing tax credit program had the following activity;

	FY 2015	FY 2016	FY 2017	FY 2018 (projected)	FY 2019 (projected)
Certificates Issued	265	105	325	232	232
Projects	30	24	36	30	30
Amount Authorized	$156,736,570	$167,123,390	$166,302,030	$0	$0
Amount Issued	$124,988,930	$101,939,700	$188,597,820	$138,508,817	$138,508,817
Amount Redeemed	$140,292,351	$170,028,538	$165,661,698	$158,660,862	$158,660,862

Amount Outstanding - $847,512,576   Amount Authorized but Unissued - $432,085,470

Oversight notes a portion of the proposal (§135.352.7) would reduce the authorization of the 9% credit to no more than $135 million annual cap beginning on July 1, 2018 (FY 2019). Oversight assumes a reduction in the authorization cap would take place immediately; however, due to the lag time between the authorization, issuance and redemptions of the credits that reduction may not be felt for several years. This credit requires that prospective taxpayers apply for the tax credit prior to construction at which time they are authorized tax credits. Prospective taxpayers would apply for the authorization of the new reduced cap credits starting after July 1, 2018 (FY 2019). The projects generally have a two year build cycle before completion and issuance of the credits. Therefore, projects approved after July 1, 2018 would not generally result in tax credits

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issued until after the end of FY 2020, and would not be able to be redeemed until FY 2021. Oversight will reflect the amount of increased revenue to the State as difference between the new cap of $135 million and the average amount issued over the last five years of $133 million. Oversight will show the savings as the estimate provided by B&P.

§142.803 Motor Fuel Tax Rate
Officials at the **B&P** assume this section would increase the motor fuel tax by $0.02 per gallon from 8/28/18 through 8/27/19, an additional $0.02 per gallon from 8/28/19 through 8/27/20, and an additional $0.02 per gallon from 8/28/20 and thereafter. This section would also increase the alternative fuel taxes from compressed natural gas (CNG), liquefied natural gas (LNG), and propane from $0.17 to $0.23 beginning 1/1/2026.

Based on FY 2017 motor fuel tax collections of $715.0 million, B&P estimates that 4,205.9 million gallons of motor fuel were taxed. Using this estimate, B&P calculates that a total increase of $0.06 on the motor fuel tax will generate $252.4 million in revenue.

Based on FY 2017 collections of $183,000 for compressed natural gas/propane and $141,000 for liquefied natural gas, B&P estimates that a total increase of $0.06 on the alternative fuels could generate up to $1.2 million in revenue. B&P notes that under this proposal, taxpayers could still purchase an alternative fuel decal rather than pay the fuel tax at the pump.

Based on these calculations, B&P estimates the increased taxes will generate $48.8 million in for the State Road Fund in FY 2019 and $176.5 million in FY 2027 and thereafter. The increased tax will also raise local funds of $21.3 million in FY 2019 and $77.0 million in FY 2027 and thereafter.

Officials at the **DOR** assume this proposed section increases motor fuel tax to nineteen cents per gallon from seventeen cents per gallon from August 28, 2018 through August 27, 2019. In FY 2017 the Department had an estimated 4.107 billion gallons of motor fuel that was taxed. This would therefore increase state revenues by an estimated $48.8 million in FY 2019.

From August 28, 2019 through August 27, 2020, the tax will be increased to twenty-one cents per gallon. In FY 2017 the Department had an estimated 4.107 billion gallons of motor fuel that was taxed. This would therefore increase state revenues by an estimated $107.4 million in FY 2020.

Beginning August 28, 2020, the tax will be increased to twenty-three cents per gallon. In FY17 the Department had an estimated 4.107 billion gallons of motor fuel that was taxed. This would

ASSUMPTION (continued)

therefore increase state revenues by an estimated $175.7 million in FY 2021. When fully implemented an estimated increase to total state revenues by $176.5 million.

DOR's Excise Tax Section notes that consumers applying for non-highway use refunds of the motor fuel tax create instances of claims being made at different tax rates. This increases processing time of motor fuel refunds as each fuel ticket will not only need to be examined to see if it meets the one year time limit and to identify the date of the ticket to determine the tax rate. Rate changes effective on the first of the year minimize the programming changes needed in regards to reporting and collecting of the tax. The Excise Tax Section will require one Revenue Processing Technician I ($24,360) to ensure the Department processes refunds timely and avoiding paying interest on refunds. Rate change information would need to be sent to approximately 642 licensees at a cost of $356 (642 x .555 cents).

ITSD-DOR estimates programming changes at a cost of $75,168 ($75 hourly rate x 1,002.24 hours).

Oversight will show the FTE and programming costs in the fiscal note.

Officials at the **Missouri Department of Transportation** defer to Department of Revenue for fiscal impact.

Oversight notes this portion of the proposal would increase the motor fuel tax from $.17 per gallon to $.19 per gallon starting August 28, 2018 (FY 2019) and ending August 27, 2019. It would then increase the motor fuel tax again to $.21 per gallon on August 28, 2019 (FY 2020) and ending August 27, 2020. On August 28, 2020 it would make a final increase to the motor fuel tax to $.23 per gallon. This chart shows the amount of tax collected and number of gallons sold on motor fuel each of the last five fiscal years.

	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012
Motor Fuel Tax Collected	$726,918,660	$704,792,974	$704,921,584	$708,241,405	$708,063,819
Gallons	4,270,109,765	4,145,841,024	4,146,597,553	4,166,125,912	4,165,081,288

Source: Department of Revenue

ASSUMPTION (continued)

Oversight notes the five year average number of gallons of motor fuel sold is 4,178,751,108. Oversight notes the money in the Motor Fuel Tax Fund (0673) is distributed 15% to cities, 12% to counties, and the remaining 73% to the State Road Fund. Oversight will show the estimates provided by B&P and DOR.

B&P and DOR Calculation of Individual Income Tax Changes
§143.011 Individual Income Tax Rate and §143.171 Individual Federal Tax Deduction
Officials at the **B&P** assume that beginning with tax year 2019, §143.011 requires that the top rate of tax be reduced to 5.25% for incomes over $8,000 adjusted for inflation. Beginning with tax year 2020, all tax rates may be reduced by 0.1%, up to four times for a total reduction of 0.4% for each tax rate. The tax rates shall only be reduced if net general revenue collected in the previous fiscal year is at least $150 million greater than the largest amount of net general revenue collected in the previous three fiscal years. For the purposes of this fiscal note, B&P assumes that each tax rate reduction occurs in consecutive years. B&P acknowledges that it is probable there will be years when the net General Revenue requirement is not met and thus the rate reductions do not occur; therefore, the earliest this provision could be fully implemented is in FY 2025.

Section 143.011.3(1) would grant an additional top rate reduction of 0.3% on or after tax year 2019. Section 144.011.3(2) contains a contingency clause stating that the top rate reduction in subsection 3 shall not occur unless the Supreme Court of the United States renders a decision, a law is passed by the federal government, or the constitution of the United States is amended which enables the state of Missouri to require out-of-state sellers with no physical presence in the state to collect and remit state and local sales taxes. B&P notes that estimating a possible federal change in the future to existing law is outside the scope of this fiscal note. For the purpose of this fiscal note, B&P estimates that the top rate reduction contained in subsection 3 will not occur.

ASSUMPTION (continued)

Breakdown of the current law/SB 509 rates versus this proposal.

Tax Year	Current Law Top Rate	Proposed Top Rate	Proposal - Other Rates
2018	5.9%	N/A	N/A - 1st implementation of SB 509
2019	5.8%	5.25%	N/A - 2nd implementation of SB 509
2020	5.7%	5.15%	All reduced by .01%
2021	5.6%	5.05%	All reduced by .01%
2022	5.5%	4.95%	All reduced by .01%
2023	5.5%	4.85%	All reduced by .01%
2023	5.5%	4.75%	All reduced by .01%

In addition to the top rate reduction, starting with tax year 2020 the language in the proposal reduced all of the tax rates by 0.1% every time the growth trigger was met. So the proposal ends up with a bottom tax rate of 1.00% and a top tax rate of 4.75%.

Section 143.171 phases out the federal income tax deduction based on a taxpayer's Missouri adjusted gross income. Using 2015 tax year data, the most recent year available, and combining the individual income tax changes in §143.011 and §143.171, B&P estimates that this provision will reduce Total State Revenue and General Revenue by ($112.6 million) in FY 2019 and ($583.6 million) once fully implemented (FY 2025).

ASSUMPTION (continued)

The following table shows the estimated impact, by tax year, for §143.011, §143.171 and §143.177 (discussed later in the fiscal note).

Figures in Millions

Tax Year	Individual Income Tax Rate Change Impact	Working Family Tax Credit	Total Changes to Individual Income Tax
TY 2019	($268.1)	($21.3)	($289.4)
TY 2020	($295.7)	($34.1)	($329.8)
TY 2021	($325.0)	($34.1)	($359.1)
TY 2022	($354.8)	($34.1)	($388.9)
TY 2023	($478.7)	($34.1)	($512.8)
TY 2024	($583.6)	($34.1)	($617.7)

The following table show the estimated impact, by fiscal year, for §143.011, §143.171 and §143.177 (discussed later in the fiscal note).

Figures in Millions

Fiscal Year	Individual Income Tax Rate Change Impact	Working Family Tax Credit	Total Changes to Individual Income Tax
FY 2019	($112.6)	($0)	($112.6)
FY 2020	($279.7)	($21.3)	($301.0)
FY 2021	($308.0)	($34.1)	($342.1)
FY 2022	($337.5)	($34.1)	($371.6)
FY 2023	($406.9)	($34.1)	($441.0)
FY 2024	($522.7)	($34.1)	($556.8)
FY 2025	($583.6)	($34.1)	($617.7)

ASSUMPTION (continued)

Oversight notes that B&P apportions out the impact from tax year into the two fiscal years that would be impacted. They put 42% of the loss/gain in the first fiscal year (so FY19 in the case of changes to TY19) and 58% of the loss/gain into the second fiscal year (so FY20 for changes to TY19). Which means that FY20 will get 58% of the impact from the TY19 change and 42% of the impact from the TY20 change. This split was determined by looking at historical data from FY 2000 through FY 2017 to see when individual income tax arrives to determine that 42/58 split.

Officials at the **DOR** assume that beginning with calendar year 2019, the legislation reduces the top individual income tax rate to five and one-quarter percent for income over $8,000. Beginning with calendar year 2020, the legislation reduces the remaining tax rates by 0.1%, for a maximum of four reductions. However, a reduction may only occur if net general revenue collected is at least $150 million greater than the highest net general revenue collected in the previous three fiscal years. When fully implemented this would potentially decrease General Revenue by an estimated $585.6 million.

Officials at the **DOR** assume this changes the provisions of the law to the contrary, for all tax years beginning on or after January 1, 2019, an individual taxpayer shall be allowed a deduction equal to a percentage of his or hers federal income tax liability under Chapter 1 of the Internal Revenue Code for the same taxable year for which the Missouri return is being filed, not to exceed five thousand dollars on a single taxpayer's return or ten thousand dollars on a combined return, after reduction for all credits thereon, except the credit for payments of federal estimated tax, the credit for the overpayment of any federal tax, and the credits allowed by the Internal Revenue Code by 26 U.S.C. Section 31, 26 U.S.C. Section 27, and 26 U.S.C. Section 34. The deduction percentage is determined according to the following table:

If the Missouri Adjusted Gross Income is:	The deduction percentage is:
$25,000 or less	100%
$25,001 - $50,000	75%
$50,001 - $100,000	30%
$100,001 - $150,000	10%
$150,001 and more	0%

The Department estimates that this Federal Income Tax phase out provision could increase State Revenues.

Oversight presents B&P and DOR calculations against EPARC in chart on page 20.

ASSUMPTION (continued)

EPARC Calculation of Individual Income Tax Changes
Officials at the **University of Missouri's Economic and Policy Analysis Research Center** (**EPARC**) assume that although there are many changes to Missouri tax law within this bill, we will restrict our analysis to those changes pertaining to the individual income tax.

This bill would change the taxable income classes as they apply to the Missouri personal income tax table. It would eliminate the top rate, reducing the remaining top rate to 5.25 % in 2019. Then it would reduce the remaining rates by 0.1% every time the general revenue collected in the current fiscal year exceeds the previous year. In addition to the rate reduction, it would also reduce the top rate of tax by 0.3% if conditions described in subsection 3 of section 143.011 are met. An income bracket would be eliminated once the top rate of tax is reduced below the rate that is applicable to such income bracket.

This bill would also authorize an earned income tax credit. The credit would equal to 10% of filers' federal earned income credit in 2019 and 20% of filers' federal earned income credit in 2020 and beyond. This credit will be refundable. As well, this bill would further limit the federal income tax deduction. Specifically, filers earning over $150,000 in Missouri adjusted gross income would no longer be able to deduct their federal income tax amount, filers earning between $100,000 and $150,000 would be able to deduct 10% of their federal income tax amount, filers earning between $50,000 and $100,000 would be able to deduct 30% of their federal income tax amount, filers earning between $25,000 and $50,000 would be able to deduct 75% of their federal income tax amount, and filers earning $25,000 or less will continue to be able to deduct 100% of the federal income tax amount. These limitations remain in conjunction with the current caps of $5,000 and $10,000 for single and joint filers respectively.

This response assumes that the revenue trigger above will be met every year providing a maximum impact estimate for 2019, 2020 and 2021.

The Baseline below shows the personal income tax brackets as they will appear in 2018 under current law. Immediately following the baseline we show the 2019, 2020 and 2021 brackets and rates proposed by this bill.

ASSUMPTION (continued)

Baseline

If the Missouri taxable income is:	The tax is:
Not over $1,028 …	1 ½ % of the Missouri taxable income
Over $1,028 but not over $2,056 …	$15 plus 2 % of excess over $1,028
Over $2,056 but not over $3,084 …	$36 plus 2 ½ % of excess over $2,056
Over $3,084 but not over $4,112 …	$62 plus 3 % of excess over $3,084
Over $4,112 but not over $5,140 …	$93 plus 3 ½ % of excess over $4,112
Over $5,140 but not over $6,168 …	$129 plus 4 % of excess over $5,140
Over $6,168 but not over $7,196 …	$170 plus 4 ½ % of excess over $6,168
Over $7,196 but not over $8,224 …	$216 plus 5 % of excess over $7,196
Over $8,224 but not over $9,253 …	$267 plus 5 ½ % of excess over $8,224
Over $9,253 …	$324 plus 5.9 % of excess over $9,253

(1) If reduction in the top rate under subsection 3 of section 143.011 does not occur

2019

If the Missouri taxable income is:	The tax is:
Not over $1,000 …	1 ½ % of the Missouri taxable income
Over $1,000 but not over $2,000 …	$15 plus 2 % of excess over $1,000
Over $2,000 but not over $3,000 …	$35 plus 2 ½ % of excess over $2,000
Over $3,000 but not over $4,000 …	$60 plus 3 % of excess over $3,000
Over $4,000 but not over $5,000 …	$90 plus 3 ½ % of excess over $4,000
Over $5,000 but not over $6,000 …	$125 plus 4 % of excess over $5,000
Over $6,000 but not over $7,000 …	$165 plus 4 ½ % of excess over $6,000
Over $7,000 but not over $8,000 …	$210 plus 5 % of excess over $7,000
Over $8,000 …	$260 plus 5.25 % of excess over $8,000

The baseline for our analysis where Net Tax Due is $5,454.004 million. The simulation results of the parameter changes in this bill for 2019 shows Net Tax Due equals $5,138.203 million. This is a decrease in Net Tax Due of $315.802 million from the baseline. Therefore, this corresponds to a decrease in Net General Revenue in 2019 of $315.802 million due to this change in the Missouri tax brackets and rates and the federal tax deduction.

ASSUMPTION (continued)

2020

If the Missouri taxable income is:	The tax is:
Not over $1,000 …	1.4 % of the Missouri taxable income
Over $1,000 but not over $2,000 …	$14 plus 1.9 % of excess over $1,000
Over $2,000 but not over $3,000 …	$33 plus 2.4 % of excess over $2,000
Over $3,000 but not over $4,000 …	$57 plus 2.9 % of excess over $3,000
Over $4,000 but not over $5,000 …	$86 plus 3.4 % of excess over $4,000
Over $5,000 but not over $6,000 …	$120 plus 3.9 % of excess over $5,000
Over $6,000 but not over $7,000 …	$159 plus 4.4 % of excess over $6,000
Over $7,000 but not over $8,000 …	$203 plus 4.9 of excess over $7,000
Over $8,000 …	$252 plus 5.15 % of excess over $8,000

The baseline for our analysis where Net Tax Due is $5,454.004 million. The simulation results of the parameter changes in this bill for 2020 shows Net Tax Due equals $5,013.714 million. This is a decrease in Net Tax Due of $440.290 million from the baseline. Therefore, this corresponds to a decrease in Net General Revenue in 2020 of $440.290 million due to this change in the Missouri tax brackets and rates and the federal tax deduction.

2021

If the Missouri taxable income is:	The tax is:
Not over $1,000 …	1.3 % of the Missouri taxable income
Over $1,000 but not over $2,000 …	$13 plus 1.8 % of excess over $1,000
Over $2,000 but not over $3,000 …	$31 plus 2.3 % of excess over $2,000
Over $3,000 but not over $4,000 …	$54 plus 2.8 % of excess over $3,000
Over $4,000 but not over $5,000 …	$82 plus 3.3 % of excess over $4,000
Over $5,000 but not over $6,000 …	$115 plus 3.8 % of excess over $5,000
Over $6,000 but not over $7,000 …	$153 plus 4.3 % of excess over $6,000
Over $7,000 but not over $8,000 …	$196 plus 4.8 of excess over $7,000
Over $8,000 …	$244 plus 5.05 % of excess over $8,000

The baseline for our analysis where Net Tax Due is $5,454.004 million. The simulation results of the parameter changes in this bill for 2021 shows Net Tax Due equals $4,902.324 million. This is a decrease in Net Tax Due of $551.680 million from the baseline. Therefore, this corresponds to a decrease in Net General Revenue in 2021 of $551.680 million due to this change in the Missouri tax brackets and rates and he federal tax deduction.

ASSUMPTION (continued)

(2) If reduction in the top rate under subsection 3 of section 143.011 occurs

2019

If the Missouri taxable income is:	The tax is:
Not over $1,000 …	1 ½ % of the Missouri taxable income
Over $1,000 but not over $2,000 …	$15 plus 2 % of excess over $1,000
Over $2,000 but not over $3,000 …	$35 plus 2 ½ % of excess over $2,000
Over $3,000 but not over $4,000 …	$60 plus 3 % of excess over $3,000
Over $4,000 but not over $5,000 …	$90 plus 3 ½ % of excess over $4,000
Over $5,000 but not over $6,000 …	$125 plus 4 % of excess over $5,000
Over $6,000 but not over $7,000 …	$165 plus 4 ½ % of excess over $6,000
Over $7,000	$210 plus 4.95 % of excess over $7,000

The baseline for our analysis where Net Tax Due is $5,454.004 million. The simulation results of the parameter changes in this bill for 2019 shows Net Tax Due equals $4,860.035 million. This is a decrease in Net Tax Due of $593.969 million from the baseline. Therefore, this corresponds to a decrease in Net General Revenue in 2019 of $593.969 million due to this change in the Missouri tax brackets and rates and the federal tax deduction.

2020

If the Missouri taxable income is:	The tax is:
Not over $1,000 …	1.4 % of the Missouri taxable income
Over $1,000 but not over $2,000 …	$14 plus 1.9 % of excess over $1,000
Over $2,000 but not over $3,000 …	$33 plus 2.4 % of excess over $2,000
Over $3,000 but not over $4,000 …	$57 plus 2.9 % of excess over $3,000
Over $4,000 but not over $5,000 …	$86 plus 3.4 % of excess over $4,000
Over $5,000 but not over $6,000 …	$120 plus 3.9 % of excess over $5,000
Over $6,000 but not over $7,000 …	$159 plus 4.4 % of excess over $6,000
Over $7,000	$203 plus 4.85 of excess over $7,000

The baseline for our analysis where Net Tax Due is $5,454.004 million. The simulation results of the parameter changes in this bill for 2020 shows Net Tax Due equals $4,736.044 million. This is a decrease in Net Tax Due of $717.969 million from the baseline. Therefore, this corresponds to a decrease in Net General Revenue in 2020 of $717.969 million due to this change in the Missouri tax brackets and rates and the federal tax deduction.

ASSUMPTION (continued)

2021

If the Missouri taxable income is:	The tax is:
Not over $1,000 …	1.3 % of the Missouri taxable income
Over $1,000 but not over $2,000 …	$13 plus 1.8 % of excess over $1,000
Over $2,000 but not over $3,000 …	$31 plus 2.3 % of excess over $2,000
Over $3,000 but not over $4,000 …	$54 plus 2.8 % of excess over $3,000
Over $4,000 but not over $5,000 …	$82 plus 3.3 % of excess over $4,000
Over $5,000 but not over $6,000 …	$115 plus 3.8 % of excess over $5,000
Over $6,000 but not over $7,000 …	$153 plus 4.3 % of excess over $6,000
Over $7,000	$196 plus 4.75 of excess over $7,000

The baseline for our analysis where Net Tax Due is $5,454.004 million. The simulation results of the parameter changes in this bill for 2021 shows Net Tax Due equals $4,625.548 million. This is a decrease in Net Tax Due of $828.456 million from the baseline. Therefore, this corresponds to a decrease in Net General Revenue in 2021 of $828.456 million due to this change in the Missouri tax brackets and rates and the federal tax deduction.

Conclusion: As stated above, there are many changes to Missouri tax law within this bill, however we restricted our analysis to those changes pertaining to the individual income tax. If reduction in the top rate under subsection 3 of section 143.011 did not occur, we would expect Net General Revenue to decrease by $315.802 million in 2019, decrease by $440.290 million in 2020 and then decrease by $551.680 million in 2021. On the other hand, if reduction in the top rate under subsection 3 of section 143.011 occurred, we would expect Net General Revenue to decrease by $593.969 million in 2019, decrease by $717.969 million in 2020 and then decrease by $828.456 million in 2021.

Oversight presents EPARC calculations against B&P and DOR in chart on page 20.

§143.177 Missouri Working Family Tax Credit

Officials at the **B&P** assume this creates the Missouri Working Family Tax Credit Act. Beginning with tax year 2019, resident taxpayers shall be granted a non-refundable tax credit equal to 10% of their federal EITC. Beginning with tax year 2020, resident taxpayers shall receive a non-refundable tax credit equal to 20% of their federal EITC.

Using tax year 2015 data, the most recent year available and accounting for the federal tax reform that took effect January 1, 2018, B&P estimates that this provision will reduce Total State Revenue and General Revenue by $21.3 million in FY 2020 and $34.1 million in FY 2021 and annually thereafter.

ASSUMPTION (continued)

Officials at the **DOR** assume this proposed section establishes the Missouri Working Family Tax Credit. This credit would be equal to 10 percent of the taxpayer's federal Earned Income Tax Credit, not to exceed the taxpayer's tax liability for TY 2019, increasing it to 20 percent in TY 2020. The Department estimates that this Working Family Tax Credit could potentially decrease state revenues by an estimated $61.8 million each year when fully implemented.

In response to similar legislation filed this year, SB 939, officials at the **University of Missouri's Economic and Policy Analysis Research Center** (**EPARC**) were able to run a simulation, authorizing an individual income tax credit equal to 20% of any earned income tax credit claimed by the taxpayer on the federal income tax return. This credit will not be refundable.

The individual income tax for Missouri (2016) is the baseline for the analysis. This baseline takes into account the Federal Tax Cuts and Jobs Act. Net Tax Due equals $5,454.004 million. If the aforementioned tax credit is implemented, Net Tax Due reduces to $5,411.647 million. This translates into a decrease in Net General Revenue of $42.357 million.

Note: The increase seen in the General Tax Credits figure is the complete measure of 20% of Missouri filers' Federal Earned Income Credit. Many filers are able to reduce their tax burden to zero before using their entire credit. Because this tax credit does not allow the remainder to be refunded to the filer, our impact estimation is only concerned with the reduction in Net Tax Due. To reiterate, our estimate is this bill will reduce Net General Revenue by $42.357 million.

Oversight notes this proposal allows for a 10% credit of the federal earned income tax credit in FY 2019 and 20% of the credit starting in FY 2020. Oversight will show the impact in the year the tax returns would be filed. Oversight will show Up to $21.179 million for FY 2020 and $42.357 million estimated by EPARC for future years.

ASSUMPTION (continued)

Individual Income Tax Changes Comparison

Comparison of B&P, DOR and EPARC Individual Income Tax Change Estimates by Tax Year-figures in Millions

		TY 2019	TY 2020	TY 2021
EPARC	Individual Income with Earned Income Included	($315.802)	($440.290)	($551.680)
BAP	Individual Income	($268.1) +($21.3) ($289.4)	($295.7) +($34.1) ($329.8)	($325.0) +($34.1) ($359.1)
	Earned Income			
DOR	Individual Income	($268.1) +($53.3) ($321.4)	($295.7) +($68.1) ($363.8)	($325.0) +($68.1) ($393.1)
	Earned Income			

Oversight has no way to test the estimates provided by B&P, DOR and EPARC. B&P and DOR confirmed to Oversight, they were able to run their calculation against the current SB 509 requirements of reducing the individual rate and comparing the current rate to the new proposed rate. EPARC however, held their baseline comparison to the 5.9% tax rate and compared that rate to the proposed rate. Since B&P and DOR were able to use the SB 509 future tax rate for comparison in FY 2020 and FY 2021, Oversight will use their projection for the fiscal note.

§143.071.4 Corporate Tax Rate
Officials at the **B&P** assume this section would reduce the corporate tax rate from the current 6.25% to 4.25% beginning with tax year 2019. Based on FY 2017 net corporate collections of $276.2 million, B&P estimates that this provision will reduce Total State Revenue and General Revenue by $88.4 million annually, once fully implemented.

Officials at the **DOR** assume §143.071 changes the tax imposed upon the Missouri taxable income of corporations in an amount equal to four and one-fourth percent of Missouri taxable income. The Department estimates that this could potentially decrease State Revenue by an estimated $95,807,741 each year.

ASSUMPTION (continued)

Oversight will use the estimate provided by DOR.

§143.171 Corporate Income Tax Deduction
Officials at the **B&P** assume this would end the corporate income deduction for federal taxes paid beginning with tax year 2019. Based on information from DOR, in FY 2017 there were $109 million in corporate federal tax deductions. Therefore, B&P estimates that this provision could increase Total State Revenue and General Revenue by $109 million annually beginning FY 2020.

Officials at the **DOR** assume beginning January 1, 2019, there will no longer be allowed a deduction for federal taxes paid by a corporation. The Department estimates that this will increase State Revenues by an estimated $109 million.

§143.261 Repeal of the Withholding Timely Filing Discount
Officials at the **B&P** assume this would end the withholding timely filing discount beginning in tax year 2019. Based on data from DOR, in FY 2017 there were $31 million in withholding timely filing discounts. Therefore, B&P estimates that this section would increase Total State Revenue and General Revenue by $15.5 million in FY 2019 and by $31 million in FY 2020 and annually thereafter.

Officials at the **DOR** assume this proposed section repeals the timely filing discount for withholding. This may have an estimated $31 million increase to General Revenue.

§143.451 to §143.471 Corporate Allocation of Income
Officials at the **B&P** assume this creates a single-sales factor corporate income allocation method. Sections 32.200, 143.451, 143.461, and 143.471 disallow other corporate income allocation methods beginning in tax year 2019. Based on information provided by DOR, B&P estimates that requiring all corporations to use a single-sales factor income allocation method will increase Total State Revenue and General Revenue by $141.6 million annually once fully implemented.

Officials at the **DOR** assume this proposed section would remove Corporate Method One - Multi-state Allocation and Three Factor Apportionment and Method Two - Business Transaction Single Factor Apportionment to be replaced by the Optional Single Sales Factor Apportionment. The Department estimates that this could potentially increase Total State Revenues by an estimated $141,619,642

ASSUMPTION (continued)

§144.030.2(19) Kidney Dialysis Exemption
Officials at the **B&P** assume this section includes a new exemption for kidney dialysis equipment and enteral feeding systems. B&P notes that this will have a minimal negative impact on Total State Revenue.

§144.049 School Supply Sales Tax Holiday
Officials at the **B&P** assume this removes the current $50 per purchase limit on qualifying school supply purchases during the school tax holiday, removes graphing calculators of $150 or less from the list of qualified purchases, and creates a $1,500 per item, rather than the current per purchase, limit on computers and computer supplies. B&P notes that this will have a minimal negative impact on Total State Revenue.

B&P also notes that this section no longer allows local municipalities to opt out of the school tax holiday. This will reduce revenues in all localities that currently opt out of the sales tax holiday. In tax year 2016, the most recent year data was available, local sales tax collections for qualifying items during the holiday totaled $0.4 million. Therefore, B&P estimates that this provision could reduce local funds by $0.4 million beginning in FY 2020.

Oversight notes this proposal would not be effective until August 28, 2018, which is after the school sales tax holiday occurs in FY 2019. Oversight will not show a fiscal impact in FY 2019. Oversight will show the fiscal impact to local political subdivisions as the estimate provided by B&P.

§144.054 Manufacturing Sales Tax Exemption
Officials at the **B&P** assume this would expand the manufacturing sales tax exemption to include local sales tax. Based on previous estimates, the state sales tax loss due to this exemption is $70 million. B&P estimates that state sales taxes account for 36% of total tax collected, while local taxes account for 64%. Therefore, B&P estimates that the total cost of the manufacturing sales tax exemption to state and local sales taxes would be $194.4 million. Based on these calculations, B&P estimates that this section could reduce local sales taxes by $124.4 million annually.

Oversight will show the loss to local political subdivisions as the estimate provided by B&P.

ASSUMPTION (continued)

§144.526 Show Me Green Sales Tax Holiday
Officials at the **B&P** assume this no longer allows local municipalities to opt out of the Show Me Green sales tax holiday. This will reduce revenues in all localities that currently opt out of this sales tax holiday.

In tax year 2017, the most recent year data was available, local sales tax collections for qualifying items during the holiday totaled $0.4 million. Therefore, B&P estimates that this provision could reduce local funds by $0.4 million beginning in FY 2019.

Oversight will use the estimate of the local political subdivisions impact as provided by B&P.

§620.3200 Historic Preservation Tax Credit 1% Fee
Officials at the **B&P** and **DOR** each assume this section allows DED to charge a fee up to 1% on all tax credits issued under Chapter 253. The fee is to be deposited into the Capitol Complex Fund, as created in Section 620.3210. B&P notes that this would apply the 1% fee to only the Historic Preservation tax credits. The three-year average of issued Historic Preservation Credits was $66.0 million from FY 2015-FY 2017. Therefore, B&P and DOR estimate that this provision will increase Total State Revenue by $0.7 million beginning in FY 2019.

Officials at the **Missouri Development Finance Board** defer to the Department of Economic Development for fiscal impact.

Oversight notes §620.3200 allows the Department of Economic Development to charge a fee to the recipient of any tax credits issued by the Department under the provisions of chapter 253 (Historic Preservation Tax Credit) in an amount not to exceed one percent of the amount of tax credits issued. Oversight also notes this fee shall be payable to the Missouri Development Finance Board for the benefit of the Capitol Complex Fund. The current five year issue average of the credits is $62,244,236. Oversight will show revenue to the Capitol Complex Fund in the amount of Up to the estimate of $700,000 provided by B&P and DOR starting in FY 2019.

§620.3210 Capitol Complex Tax Credit
Officials at the **B&P** and **DOR** each assume §620.3210, would create a tax credit for individuals or entities that make eligible monetary or artifact donations to the Capitol Complex Fund, beginning January 1, 2018. Taxpayers may claim a tax credit for an amount up to 50% of their eligible monetary donation or for an amount up to 30% of their eligible artifact donation. The credit for monetary donations is refundable and has a four-year, carry-forward provision. The credit for eligible artifact donations is not refundable and has a four-year, carry-forward provision. Issuances of these tax credits are capped at $10 million annually. These tax credits

ASSUMPTION (continued)

may offset Tax Year 2018 liabilities; therefore, reducing General and Total State Revenues by up to $10 million annually beginning in FY 2019.

Officials at the **Department of Economic Development** assume this would create a new tax credit for them to administer. They will need to hire one Economic Development Incentive Specialist III ($53,136) to administer.

Oversight notes that the tax credit does not places a limit on the amount one taxpayer can receive. Therefore, due to the limited number of credits that may be issued, DED can absorb the administration of this credit with existing resources. Should the number of credits issued, reach the level to justify additional FTE, DED can request the FTE through the appropriation process.

Oversight notes the Department of Economic Development shall not authorize more than $10 million in tax credits under §620.3210 in any calendar year. This tax credit begins with tax year January 1, 2018, so the first year a person would claim the credit is FY 2019. Therefore, Oversight will show a fiscal impact of Up to the maximum cap of $10 million beginning in FY 2019.

Oversight notes §620.3210.4 of this proposal allows for a qualified donor to claim a credit in the amount of 50% of the eligible monetary donation ($10 million maximum tax credit cap / 50% = $20,000,000). §620.3210.5 of this proposal allows for a qualified donor to claim a credit in the amount of 30% of the eligible artifact donation ($10 million maximum tax credit cap / 30% = $33,333,333). Oversight will show donations to the Capitol Complex Fund Up to $20,000,000 (cash portion).

Bill as a Whole
Officials at **Callaway County** assume there is no fiscal impact from this proposal.

In response to a previous version of this proposal, officials at the **Clinton County Commission** assumed an unknown negative fiscal impact.

Officials at the **Wellsville-Middletown R-I School District** assume this has the potential to have a severe negative fiscal impact to the district.

In response to a previous version of this proposal, officials at the **Northeast Nodaway R-V School District** assumed any time you reduce taxes, it results in a negative fiscal impact to the district.

ASSUMPTION (continued)

Officials at the **Summersville R-II School District** assume a negative fiscal impact.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume a potential unknown impact to premium tax revenues may occur as a result of the changes to various tax credits and the creation of the Capitol Complex tax credit. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

The department will require minimal contract computer programming to add the Capitol Complex tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

Officials from the **Office of the Secretary of State (SOS)** state 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 the 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, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS reserves 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.

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.

ASSUMPTION (continued)

DOR Bill Summary
Officials at the **DOR** assume the bill may increase overall tax collections and Total State Revenue by an estimated $34.7 million the first year. The reduction of individual income tax rates may create a negative impact on Total State Revenue of up to an estimated $112.6 million the first year and potentially reaching $585.6 million in FY 2038, with a potential overall negative impact on Total State Revenues of an estimated $273.4 million when fully implemented in FY 2038.

The table below shows the estimated impacts from each provision on Total State Revenue, for the first three years and once fully implemented.

Table 1: **DOR** Calculated - State Impacts - figures in Millions

	FY 2019	FY 2020	FY 2021	Fully Implemented
Streamlined Sales & Use Tax §32.070	$0.0	$10.6	$21.2	$21.2
LIHTC - cap 9% program §135.352	$0.0	$0.0	$0.0	$6.1
Fuel Tax- State Road Fund §142.803	$48.8	$107.4	$175.7	$176.5
Individual Income Tax §143.011	($112.6)	($279.7)	($308.0)	($585.6)
Corporate Tax Rate §143.071	($47.9)	($95.8)	($95.8)	($95.8)
Corporate Federal Tax Deduction Eliminated §143.171	$0.0	$109.0	$109.0	$109.0
Working Family tax credit §143.177	$0.0	($53.3)	($68.1)	($68.1)
Withholding Timely Filing Discount Eliminated §143.261	$15.5	$31.0	$31.0	$31.0
Single-Sales Factor Allocation §143.455	$70.8	$141.6	$141.6	$141.6
Historic Preservation credit fee §620.3200	$0.7	$0.7	$0.7	$0.7
Capitol Complex Tax Credit §620.3210	($10.0)	($10.0)	($10.0)	($10.0)
Total Estimated Impact to State Revenue	**($34.7)**	**($38.5)**	**($2.7)**	**($273.4)**

<u>ASSUMPTION</u> (continued)

Table 2: **DOR & B&P** Calculated - Local Impacts - figures in Millions

	FY 2019	FY 2020	FY 2021	Fully Implemented
Streamline Sales & Use	$0.0	$9.1	$18.3	$18.3
Fuel Tax	$21.3	$46.9	$76.7	$77.0
Back to School Sales Tax Holiday	$0.0	($0.4)	($0.4)	($0.4)
Manufacturing Sales Tax Exemption	($103.7)	($124.4)	($124.4)	($124.4)
Show Me Green Sales Tax Holiday	($0.4)	($0.4)	($0.4)	($0.4)
Total Estimated Impact to Local Government Revenue	**($82.8)**	**($69.2)**	**($30.2)**	**($29.9)**

Table 3: **DOR**- State Funds Impacted- figures in Millions

	FY 2019	FY 2020	FY 2021	Fully Implemented
General Revenue	($80.5)	($110.3)	($143.8)	($413.3)
State Road Fund	$48.8	$107.4	$175.7	$176.5

<u>B&P Bill Summary</u>
In total, **B&P** estimates this proposal will increase Total State Revenue by $25.3 million in FY 2019. Once fully implemented (FY 2038) this proposal will increase Total State Revenue by $61.8 million annually.

The following tables show the revenue impacts per proposal provision and the impacts to each state fund.

ASSUMPTION (continued)

Table 1: **B&P** Calculated - Revenue Impact by Provision - figures in Millions

	FY 2019	FY 2020	FY 2021	Fully Implemented
Streamlined Sales & Use Tax §32.070	$0.0	$10.6	$21.2	$21.2
LIHTC - cap 9% program §135.352	$0.0	$0.0	$0.0	$6.1
Fuel Tax- State Road Fund §142.803	$48.8	$107.4	$175.7	$176.5
Individual Income Tax §143.011	($112.6)	($279.7)	($308.0)	($583.6)
Corporate Tax Rate §143.071	($44.2)	($88.4)	($88.4)	($88.4)
Corporate Federal Tax Deduction Eliminated §143.171	$0.0	$109.0	$109.0	$109.0
Working Family tax credit §143.177	$0.0	($21.3)	($34.1)	($34.1)
Withholding Timely Filing Discount Eliminated §143.261	$15.5	$31.0	$31.0	$31.0
Single-Sales Factor Allocation §143.455	$70.8	$141.6	$141.6	$141.6
Historic Preservation credit fee §620.3200	$0.7	$0.7	$0.7	$0.7
Capitol Complex Tax Credit §620.3210	($10.0)	($10.0)	($10.0)	($10.0)
Total Estimated Impact to State Revenue	**($31.0)**	**$0.9**	**$38.7**	**($230.0)**

ASSUMPTION (continued)

Table 2: **B&P** Calculated - Revenue Impact by State Fund - figures in Millions

	FY 2019	FY 2020	FY 2021	Fully Implemented
General Revenue	($80.5)	($110.3)	($143.8)	($413.3)
Park, Soil & Water Fund	$0.0	$0.3	$0.5	$0.5
Conservation Commission Fund	$0.0	$0.3	$0.6	$0.6
School District Trust Fund	$0.0	$2.5	$5.0	$5.0
State Road Fund	$48.8	$107.4	$175.7	$176.5
Capital Complex Fund	$0.7	$0.7	$0.7	$0.7

Oversight assumes the many programs and changes to existing programs in this proposal may have a positive impact on the state. However, Oversight considers this to be an indirect impact of the proposals and will not reflect them in the fiscal note.

This proposal will impact the calculation under Article X, Section 18(e).

FISCAL IMPACT - State Government	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented
GENERAL REVENUE				
Additional Revenue Streamlined Sales & Use Agreement §32.070 p. 4	$0	$7,500,000	$15,100,000	$15,100,000
Additional Revenue Low Income Housing Tax Credit lowered cap §135.352 p. 5-8	$0	$0	$0	$6,100,000
Additional Revenue elimination of the corporate federal income tax liability deduction §143.171 p. 21	$0	$109,000,000	$109,000,000	$109,000,000
Additional Revenue - elimination of the withholding timely filing discounts §143.261 p. 21	$15,500,000	$31,000,000	$31,000,000	$31,000,000
Additional Revenue - Single-Sales Factor Allocation §143.455 p. 21	$70,800,000	$141,600,000	$141,600,000	$141,600,000

FISCAL IMPACT - State Government (continued)	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented
GENERAL REVENUE (continued)				
Cost - DOR §32.070				
Personal Service	($72,520)	($87,894)	($88,773)	(Will exceed $88,773)
Fringe Benefits	($48,508)	($58,469)	($58,730)	(Will exceed $58,730)
Equip. & Expenses	($26,443)	($3,820)	($3,914)	(Will exceed $3,914)
Total Costs p. 4	($147,471)	($150,183)	($151,417)	(Will exceed $151,417)
FTE Change - DOR	3 FTE	3 FTE	3 FTE	3 FTE
Cost - DOR Streamlined Sales and Use Tax Agreement Integrated Tax System Changes §32.070 p. 4	($662,114)	$0	$0	$0
Cost - DOR §142.803				
Personal Service	($20,300)	($24,604)	($24,850)	(Will exceed $24,850)
Fringe Benefits	($15,019)	($18,095)	($18,168)	(Will exceed $18,168)
Equip. & Expenses	($9,170)	($1,273)	($1,305)	(Will exceed $1,305)
Total Costs p. 8	($44,489)	($43,972)	($44,323)	(Will exceed $44,323)
FTE Change - DOR	1 FTE	1 FTE	1 FTE	1 FTE

FISCAL IMPACT - State Government (continued)	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented
GENERAL REVENUE (continued)				
Revenue Reduction Changes to the Individual Income Tax §143.011, §143.171 & §143.177 p. 10-20	($289,400,000 to $321,400,000)	($329,800,000)	($359,100,000)	($617,700,000)
Revenue Reduction Corporate Tax Rate Reduction §143.071 p. 20	($47,900,000)	($95,800,000)	($95,800,000)	($95,800,000)
Revenue Reduction - Capitol Complex tax credit §620.3210 p. 23-24	(Up to $10,000,000)	(Up to $10,000,000)	(Up to $10,000,000)	(Up to $10,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**($261,854,074 to $293,854,074)**	**($146,694,155)**	**($168,395,740)**	**($420,895,740)**
Estimated Net FTE Change on General Revenue	4 FTE	4 FTE	4 FTE	4 FTE

Note: **The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the increase/decrease in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.**

FISCAL IMPACT - State Government (continued)	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented
PARKS, SOIL & WATER FUND				
Additional Revenue - Streamline Sales & Use Tax Agreement §32.070 p. 4	$0	$300,000	$500,000	$500,000
ESTIMATED NET EFFECT ON PARKS, SOIL & WATER FUND	**$0**	**$300,000**	**$500,000**	**$500,000**
CONSERVATION COMMISSION FUND				
Additional Revenue - Streamline Sales & Use Tax Agreement §32.070 p. 4	$0	$300,000	$600,000	$600,000
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	**$0**	**$300,000**	**$600,000**	**$600,000**

FISCAL IMPACT - State Government (continued)	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented
SCHOOL DISTRICT TRUST FUND				
Additional Revenue - Streamline Sales & Use Tax Agreement §32.070 p. 4	$0	$2,500,000	$5,000,000	$5,000,000
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**$0**	**$2,500,000**	**$5,000,000**	**$5,000,000**
STATE ROAD FUND				
Additional Revenue - increasing motor fuel tax from 17 to 23 cents per gallon §142.803 p. 8-10	$48,800,000	$107,400,000	$175,700,000	$176,500,000
Cost - DOR computer upgrades §142.803 p. 9	($75,168)	$0	$0	$0
ESTIMATE NET EFFECT ON THE STATE ROAD FUND	**$48,724,832**	**$107,400,000**	**$175,700,000**	**$176,500,000**

FISCAL IMPACT - State Government (continued)	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented
CAPITOL COMPLEX FUND				
Additional Revenue fees charged by DED (1% of Historic Preservation Credit) §620.3200 p. 23	Up to $700,000	Up to $700,000	Up to $700,000	Up to $700,000
Donations - value of donations (50% tax credit for cash donations, 30% tax credit for donations of artifacts) §620.3200 p. 23-24	Up to $20,000,000	Up to $20,000,000	Up to $20,000,000	Up to $20,000,000
ESTIMATED NET EFFECT ON THE CAPITOL COMPLEX FUND	**Up to $20,700,000**	**Up to $20,700,000**	**Up to $20,700,000**	**Up to $20,700,000**

FISCAL IMPACT - Local Government	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented
LOCAL POLITICAL SUBDIVISIONS				
Additional Revenue Streamline Sales & Use Agreement §32.070 p. 4-5	$0	$9,100,000	$18,300,000	$18,300,000
Additional Revenue to Cities (15%) & Counties (12%) from increasing the tax from 17 to 23 cents per gallon §142.803 p. 8-10	$21,300,000	$46,900,000	$76,700,000	$77,000,000
Revenue Reduction Cities and Counties not able to opt out of School Tax Holiday §144.049 p. 22	$0	($400,000)	($400,000)	($400,000)
Revenue Reduction - Manufacturing Sales Tax Exemption §144.054 p. 22	($103,700,000)	($124,400,000)	($124,400,000)	($124,400,000)

FISCAL IMPACT - Local Government (continued)	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented
LOCAL POLITICAL SUBDIVISIONS (continued)				
Revenue Reduction Cities and Counties not able to opt out of Show Me Green Sales Tax Holiday §144.526 p. 23	($400,000)	($400,000)	($400,000)	($400,000)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**($82,800,000)**	**($69,200,000)**	**($30,200,000)**	**($29,900,000)**

FISCAL IMPACT - Small Business

This proposal would allow Missouri to enter into the Streamlined Sales and Use Tax Agreement, which may allow Missouri to collect use tax from out-of-state sellers that compete with Missouri small businesses. (§32.070)

Small businesses may be impacted by the increase over three years of the motor fuel tax up to 23 cents. (§142.803)

Small businesses would be impacted by the repeal of the withholding timely filing discount and the elimination of the corporate federal tax deduction. (§143.261 and §143.171)

Small businesses may receive a tax credit for 50 percent of an eligible monetary donation or 30 percent of an eligible artifact donation. In addition, businesses may receive a 50 percent tax credit for an eligible monetary donation made for a capital improvement projects and certain businesses may benefit from projects generated from those donations. (§620.3210)

FISCAL DESCRIPTION

This act modifies several provisions relating to taxation.

INDIVIDUAL INCOME TAX - Current law provides for a reduction in the top rate of income tax over a period of years from 6% to 5.5%, with each cut becoming effective if net general revenue collections meet a certain trigger. Beginning in the 2019 calendar year, this act provides that the top rate of tax shall be eliminated, with a top remaining tax rate reduced to 5.25% for all taxable income over $8,000. In each subsequent calendar year, the rates of tax for each remaining income bracket shall be reduced by 0.1% if net general revenue collections in the fiscal year exceed the net general revenue collections from any of the three previous fiscal years by $150 million. No more than four such reductions shall be made. Each rate shall not be reduced more than once per calendar year, and the Director of Revenue shall adjust the tax tables as provided in the act.

This act also provides for an additional 0.3% reduction in the top rate of tax if the U.S. Supreme Court renders a decision, the U.S. Congress passes a law, or the U.S. Constitution is amended, which allows the state to require out-of-state sellers with no physical presence in the state to collect and remit state and local sales taxes. (§143.011)

This act modifies the income tax deduction for federal tax liability paid by indexing the amount that may be deducted to the taxpayer's Missouri adjusted gross income, as described in the act. The deduction is allowed at 100% for adjusted gross income of $25,000 or less, and is phased out to 0% for adjusted gross income of $150,001 or more. (§143.171)

For all tax years beginning on or after January 1, 2019, this act eliminates the ability for employers to deduct and retain a portion of withholding taxes due when the employer remits such taxes on or before the due date. (§143.261)

MISSOURI WORKING FAMILY TAX CREDIT - This act establishes the Missouri Working Family Tax Credit Act. For all tax years beginning on or after January 1, 2019, this act creates a tax credit to be applied to a taxpayer's Missouri income tax liability after all reductions for other credits for which the taxpayer is eligible have been applied. The tax credit shall not exceed the amount of the taxpayer's tax liability, and shall not be refundable. For the tax year beginning on or after January 1, 2019, the amount of such tax credit shall be ten percent of the amount of a taxpayer's federal earned income tax credit. For all tax years beginning or after January 1, 2020, the amount of such tax credit shall be twenty percent of the amount of a taxpayer's federal earned income tax credit.

FISCAL DESCRIPTION (continued)

The Department of Revenue shall determine whether a taxpayer who did not apply for the tax credit established by this act is eligible and shall notify such taxpayer of his or her potential eligibility.

The Department shall prepare an annual report regarding the tax credit established by this act containing certain information as described in the act.(§143.177)

This provision shall sunset after six years unless re-authorized by the General Assembly.

CORPORATE INCOME TAX - For all tax years beginning on or after January 1, 2019, this act reduces the corporate income tax rate from 6.25% to 4.25%. (§143.071)

For all tax years beginning on or after January 1, 2019, no corporation shall be allowed a deduction for federal tax liability paid. (§143.171)

For all tax years beginning on or after January 1, 2019, this act modifies the Multistate Tax Compact by requiring corporations subject to income tax in this state to apportion and allocate income according to the income tax provisions provided in Chapter 143, and disallows the three-factor apportionment option available in the Multistate Tax Compact. (§32.200)

For all tax years beginning on or after January 1, 2019, this act modifies the law relating to the allocation and apportionment of corporate income by requiring corporations to determine their income derived from sources within this state according to the provisions of this act.

ALLOCABLE INCOME - Net rents and royalties from real property located in the state, and capital gains from the sale of such property, is allocable to the state. Net rents and royalties from tangible personal property are allocable to the state to the extent that the property is used in this state, or in their entirety if the corporation's commercial domicile is in this state and is not organized or taxable by the state in which the property is utilized, as described in the act. Capital gains from the sale of tangible personal property is allocable to this state if the property had a situs in the state at the time of sale, or if the corporation's commercial domicile is in this state and is not organized or taxable by the state in which the property had a situs, as described in the act. Interest and dividends are allocable to this state if the corporation's commercial domicile is in this state. Patent and copyright royalties are allocable to this state to the extent that the patent or copyright is utilized in this state, or to the extent that the patent or copyright is utilized in a state in which the corporation is not taxable and the corporation's commercial domicile is in this state.

FISCAL DESCRIPTION (continued)

APPORTIONABLE INCOME - All apportionable income shall be apportioned to this state by dividing the total receipts of the corporation in this state during the tax period by the total receipts of the corporation everywhere during the tax period, and multiplying such result by the net income.

Receipts from the sale of tangible personal property shall be considered in this state if the property is delivered or shipped to a purchaser within this state, or if the property is shipped from a location in this state and the purchaser is the federal government or the corporation is not taxable in the state of the purchaser.

In the case of certain industries where unusual factual situations produce inequitable results under the apportionment and allocation provisions of this act, the Director of Revenue shall promulgate rules for determining the apportionment and allocation factors for each such industry. In such a case, a corporation may petition the Director of Revenue, as described in the act. (§143.451, §143.455, §143.471, §620.1350)

This act provides that the method of allocation and apportionment elected by a corporation shall expire after five years, or whenever the director of revenue finds and notifies such corporation that such method does not show the income applicable to this state, whichever occurs first. After such expiration or revocation, the corporation may elect to use the same or a different method. Failure to make such an election shall constitute an election to comply with the allocation and apportionment provisions provided by the act. (§143.461)

MOTOR FUEL TAX - Beginning August 28, 2018, this act increases the rate of motor fuel tax from \$0.17/gallon to \$0.19/gallon. Beginning, August 28, 2019, the rate of tax shall be \$0.21/gallon. Beginning, August 28, 2020, the rate of tax shall be \$0.23/gallon. (§142.803)

This act also increases the rate of tax on compressed natural gas, liquified natural gas, and propane gas fuels to \$0.23/gallon equivalent beginning on January 1, 2026. (§142.803)

STREAMLINED SALES AND USE TAX AGREEMENT - Under this act, the Department of Revenue shall enter into the Streamlined Sales and Use Tax Agreement (SSUTA). The state shall be represented by four delegates in meetings with other states regarding the Agreement. One delegate shall be appointed by the Governor, one shall be a member of the General Assembly appointed by the President Pro Tem of the Senate, one shall be a member of the General Assembly appointed by the Speaker of the House of Representatives, and one shall be the Director of the Department of Revenue or his or her designee. These delegates shall report annually to the General Assembly regarding the agreement. (§32.070)

FISCAL DESCRIPTION (continued)

Any local sales tax changes due to a boundary change shall take effect on the first day of the calendar quarter 120 days after the sellers receive notice of the change.

The effective date for the imposition, repeal, or rate change of each local sales and use tax shall be the first day of the calendar quarter at least 120 days after the sellers receive notice of the change. (§32.087)

This act makes changes to several sections of law relating to local sales taxes in order to make language consistent across sections and to make such sections compliant with the SSUTA. (§66.601 to §94.705, §184.845, §221.407, §238.235, §238.410, §644.032)

The act adds several definitions relating to the application of the sales tax law in order to make interpretation of said sales tax law compliant with the SSUTA. (§144.010)

Certain exemptions from state sales tax are modified to be in compliance with the SSUTA. (§144.030)

The school and Show Me Green sales tax holidays are modified by removing the fifty-dollar per purchase limit on school supplies, by repealing the ability for political subdivisions to opt out of the sales tax holidays, and by defining how the sales tax exemption applies to the purchase or return of certain items. (§144.049 and §144.526)

This act relieves a purchaser from any penalties for failure to pay the proper amount of sales tax if the error was a result of erroneous information provided by the Director of Revenue. (§144.060)

The Director of Revenue shall promulgate a rule allowing for the issuance of a direct pay permit to purchasers, which would allow the purchaser to purchase goods and services without remitting payment of the tax to the seller at the time of purchase. Such purchaser shall determine the amount owed and remit such amount directly to the taxing jurisdiction. (§144.079)

The Director of Revenue shall participate in an on-line registration system that will allow sellers to register in this state and other member states. Registering in the system obligates the seller to collect and remit sales and use taxes for all taxable sales into this state as well as the other member states. Registration in the system shall not be used as a factor for determining nexus with this state. (§144.082)

FISCAL DESCRIPTION (continued)

The Director shall promulgate rules for the remittance of returns, which shall include an allowance for electronic payments and simplified electronic returns, as described in the act. (§144.084)

A certified service provider, as defined in the act, shall not be certified unless it meets certain requirements relating to the security and privacy of purchasers' information, as described in the act. (§144.109)

This act provides uniform sourcing rules for all purchases made in this state. For purchases for which the location where the order is received by the seller and the purchaser receives the product are both in Missouri, the sale shall be sourced to the location where the order is received by the seller, as described in the act. For purchases for which the location where the order is received by the seller and the purchaser receives the product are in different states, the sale shall be sourced to the location where receipt by the purchaser occurs, as described in the act. All sales of motor vehicles, trailers, semi-trailers, watercraft, outboard motors, and aircraft shall be sourced to the address of the owner. For the lease or rental of tangible personal property that requires recurring periodic payments, the first periodic payment shall be sourced to where the order is received by the seller. All subsequent payments shall be sourced to the primary property location for the property, as described in the act. For the lease or rental of tangible personal property that does not require recurring periodic payments, the payment shall be sourced to the location where receipt by the purchaser occurs. (§144.111)

The sale of certain telecommunications service, including internet, mobile telecommunications service, and ancillary service, shall be sourced to the customer's place of primary use. (§144.114)

The Director shall provide and maintain downloadable electronic databases at no cost to the user of the databases for taxing jurisdiction boundary changes, tax rates, and a taxability matrix detailing taxable property and services. Sellers will be relieved from liability if they fail to properly collect tax based upon certain information provided by the department. (§144.123 and §144.124)

Amnesty for uncollected or unpaid sales or use tax shall be granted for sellers under certain circumstances following registration with the state, as described in the act. (§144.125)

This act provides that a cause of action against a seller by a purchaser for a tax erroneously or illegally collected shall not accrue until the purchaser has provided written notice to a seller and the seller has had sixty days to respond. A seller shall be presumed to have a reasonable business practice if in the collection of such tax the seller uses a provider or a system certified by the

FISCAL DESCRIPTION (continued)

Director of Revenue and has remitted all tax collected. (§144.190)

Monetary allowances from taxes collected shall be provided to certain sellers and certified service providers for collecting and remitting state and local taxes, as described in the act. (§144.140)

When an exemption is claimed by a purchaser, a seller shall be required to collect certain information, as described in the act. A seller shall be relieved from collecting and remitting tax if it is determined that the purchaser improperly claimed an exemption. Relief from liability shall not apply to a seller who fraudulently fails to collect tax, or sellers who otherwise improperly accept an exemption certificate, as described in the act. (§144.212)

This act repeals a provision which requires the Director to establish brackets showing the amounts of tax to be collected on sales of specified amounts. Instead, the tax computation shall be carried to the third decimal place, and the tax shall be rounded to a whole cent using a method that rounds up to the next cent whenever the third decimal place is greater than four. (§144.285).

This act provides that all provisions of law with respect to sales into the state by out-of-state sellers apply to the Compensating Use Tax Law. (§144.600)

LOW INCOME HOUSING TAX CREDIT - This act implements a cap of $135 million on the amount of tax credits that may be authorized in a given fiscal year under the Missouri Low-Income Housing Tax Credit program. (§135.352)

CAPITOL COMPLEX TAX CREDIT ACT - This act creates the Capitol Complex Tax Credit Act.

The Capitol Complex Fund, which is created by this act, shall be authorized to receive any eligible monetary donation, as defined in the act, and shall be segregated into two accounts: a rehabilitation and renovation account, and a maintenance account. Ninety percent of the revenues deposited into the fund shall be placed in the rehabilitation and renovation account and seven and one-half percent of revenues deposited in the fund shall be placed in the maintenance account. The remaining two and one-half percent of the funds may be used for the purposes of fund-raising, advertising, and administrative costs.

The choice of projects for which money is to be used, as well as the determination of the methods of carrying out the project and the procurement of goods and services, shall be made by the Commissioner of Administration. No moneys shall be released from the fund for any expense

FISCAL DESCRIPTION (continued)

without the approval of the Commissioner of Administration.

For all taxable years beginning on or after January 1, 2018, any qualified donor, as defined in the act, shall be allowed a tax credit equal to fifty percent of the monetary donation amount. Any amount of tax credit that exceeds the qualified donor's state income tax liability may be refunded or carried forward for the following four years.

For all taxable years beginning on or after January 1, 2018, a qualified donor shall be allowed a tax credit equal to thirty percent of the value of an eligible artifact donation, as defined in the act. Any amount of tax credit that exceeds the donor's tax liability shall not be refunded for artifacts, but the credit may be carried forward for four subsequent years.

The DED shall not issue tax credits under this act in excess of $10 million per year in the aggregate. Donations received in excess of the cap shall be placed in line for tax credits the following year. Alternatively a donor may donate without receiving the credit or may request that their donation is returned.

Tax credits issued for donations under this act are not subject to any fee. Tax credits may be assigned, transferred, sold, or otherwise conveyed.

This act shall sunset six years after August 28, 2018, unless re-authorized by the General Assembly. (§620.3210)

This act also allows the DED to charge a fee in an amount not to exceed one percent of any tax credit issued to a recipient for the rehabilitation of historic structures. Any revenues generated by such a fee shall be deposited in the Capitol Complex Fund. (§620.3200)

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

Callaway County
Clinton County Commission
Department of Conservation
Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Natural Resources
Department of Revenue
Joint Committee on Administrative Rules
Missouri Department of Transportation
Missouri Development Finance Board
Missouri Housing Development Commission
Missouri House of Representatives
Missouri Senate
Northeast Nodaway R-V School District
Office of Administration
   Division of Budget and Planning
Office of the Secretary of State
Summersville R-II School District
Wellsville-Middletown R-I School District
University of Missouri's Economic and Policy Analysis Research Center

Ross Strope

Acting Director
February 26, 2018

JH:LR:OD