

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3972-01
Bill No.: SB 713
Subject: Taxation and Revenue - Income; Taxation and Revenue - Sales and Use.
Type: Original
Date: January 9, 2020

Bill Summary: This proposal establishes the Missouri Sales Tax Fairness Tax Credit.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue	\$0	Up to (\$210,749,309)	Up to (\$210,733,298)
Total Estimated Net Effect on General Revenue	\$0	Up to (\$210,749,309)	Up to (\$210,733,298)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue	0	2 FTE	2 FTE
Total Estimated Net Effect on FTE	0	2 FTE	2 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 2021	FY 2022	FY 2023
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 135.1200 - Missouri Sales Tax Fairness Tax Credit

Officials from the **Office of Administration - Division of Budget and Planning (B&P)** state this proposed legislation creates the “Missouri Sales Tax Fairness Tax Credit Act.” This proposed legislation establishes a refundable tax credit beginning with Tax Year 2021 based on an individuals’ filing status, the individuals Missouri Adjusted Gross Income (MAGI) and the number of children the individual claimed for the Federal Child Tax Credit (CTC).

B&P states a taxpayer with a filing status of single and with income below \$20,000 is granted a credit of \$125. A taxpayer with a filing status of head of household or married filing joint and with income below \$30,000 is granted a credit of \$175. In addition, if a married filing joint taxpayer claims 1 child for the Federal CTC they are entitled to an extra credit of \$25; if they claim 2 or more children they are entitled an extra credit of \$50. If a head of household taxpayer claims 1 or 2 children for the Federal CTC they are entitled to an extra credit of \$25; if they claim 3 or more children they are entitled an extra credit of \$50. B&P notes that this proposed legislation does not allow for an extra credit for taxpayers with a filing status of single, even if they claim children for the Federal CTC.

Table 1 shows the credit amounts granted based on filing status:

Table 1: Credit Based on Filing Status and Qualifying Children

Filing Status	Max Income	Base Credit	Min Child Credit		Max Child Credit		Credit w/o Child	Min Credit w/Child	Max Credit w/Child
			# Children	Credit	# Children	Credit			
Single	\$20,000	\$125	0	\$0	0	\$0	\$125	\$125	\$125
HOH	\$30,000	\$175	1-2	\$25	3	\$50	\$175	\$200	\$225
MFJ	\$40,000	\$175	1	\$25	2	\$50	\$175	\$200	\$225

Subsection 135.1200.5 allows the base tax credit to be phased out based on income above the maximum income thresholds established in subsection 135.1200.2. The tax credit for single filers shall be reduced by \$10 for every \$500 above the \$20,000 income limit. The tax credit for head of household filers shall be reduced by \$15 for every \$750 above the \$30,000 income limit. The tax credit for married filing joint filers shall be reduced by \$20 for every \$1,000 above the \$40,000 income limit.

ASSUMPTION (continued)

Table 2 shows the tax credit at each income level as it is phased out:

Table 2: Tax Credit Phase-Out by Income

Single Filers		HOH Filers		MFJ Filers	
Income	Tax Credit	Income	Tax Credit	Income	Tax Credit
\$20,000	\$125	\$30,000	\$200	\$40,000	\$225
\$20,500	\$115	\$30,750	\$185	\$41,000	\$205
\$21,000	\$105	\$31,500	\$170	\$42,000	\$185
\$21,500	\$95	\$32,250	\$155	\$43,000	\$165
\$22,000	\$85	\$33,000	\$140	\$44,000	\$145
\$22,500	\$75	\$33,750	\$125	\$45,000	\$125
\$23,000	\$65	\$34,500	\$110	\$46,000	\$105
\$23,500	\$55	\$35,250	\$95	\$47,000	\$85
\$24,000	\$45	\$36,000	\$80	\$48,000	\$65
\$24,500	\$35	\$36,750	\$65	\$49,000	\$45
\$25,000	\$25	\$37,500	\$50	\$50,000	\$25
\$25,500	\$15	\$38,250	\$35	\$51,000	\$5
\$26,000	\$5	\$39,000	\$20		
		\$39,750	\$5		

Oversight notes the difference in B&P's and Oversight's head of household filers maximum income to qualify for the minimum amount of tax credit (see page 8) is due to the difference in the number of children used in the calculation(s). B&P recognized the average number of children claimed under the CTC for head of household filers during Tax Year 2017 to be two (2) while Oversight provided the largest potential impact, three (3) children (or more).

Using tax year 2017 data, the most recent complete year available, **B&P** estimates that this proposal will reduce Total State Revenue (TSR) and General Revenue (GR) by \$206.7M annually beginning Fiscal Year 2022.

Table 3 shows the estimated impact by filing status:

Table 3: Number and Amount of Tax Credits Based on Filing Status

Filing Status	# of Tax Credits Claimed	\$ Amount of Tax Credits
Single	793,009	\$91,944,045
HOH	270,612	\$47,942,835
MFJ	349,527	\$66,815,055
Total	1,413,148	\$206,701,935

Oversight notes this proposed legislation would begin January 1, 2021 in which Tax Year 2021 tax returns would not be filed until after January 1, 2022 (Fiscal Year 2022).

ASSUMPTION (continued)

Officials from the **Missouri Department of Revenue (DOR)** state this proposed legislation creates the Missouri Sales Tax Fairness Tax Credit Act. It allows for resident individuals with a filing status of single a one hundred twenty-five dollar tax credit and for resident individuals with a filing status of married filing combined, head of household, or qualified widow or widower, a tax credit for one hundred seventy-five dollars.

Resident married filing combined filers also receive an additional amount equal to twenty-five dollars if such individual is eligible to claim the federal child tax credit pursuant to 26 U.S.C. Section 24 for no more than one (1) qualifying child or dependent or fifty dollars if eligible to claim the credit for more than one qualifying child or dependent. For resident individuals with a filing status of head of household or qualified widow or widower, an additional twenty-five dollars if such individual is eligible to claim the federal child tax credit for no more than two (2) qualifying children and fifty dollars if eligible to claim the credit for more than two (2) qualifying children or dependents.

DOR used its internal Income Tax Model that contains confidential taxpayer data to calculate the fiscal impact to GR.

Filing Status	Base Credit	Min Child Credit		Max Child Credit		Min Base Credit	Max Base Credit	Max Income Threshold	Phase-Out Limit	Phase-Out Loss	Total Credits
		# Children	Credit	# Children	Credit						
Single	\$125	0	\$0	0	\$0	\$125	\$125	\$20,000	\$500	\$10	\$93,289,675
HOH	\$175	2	\$25	3	\$50	\$200	\$225	\$30,000	\$750	\$15	\$48,713,430
MFJ	\$175	1	\$25	2	\$50	\$200	\$225	\$40,000	\$1,000	\$20	\$68,629,855

Total \$210,632,960

DOR notes this proposed legislation begins with tax year January 1, 2021 and, therefore, the first tax returns would be filed in January 2022. DOR uses a 42% in the first year and 58% in the second year split to convert the tax year to fiscal year impact.

Fiscal Year	GR Impact
2021	\$0
2022	\$88,465,843
2023	\$210,632,960

ASSUMPTION (continued)

Oversight notes this proposed legislation would begin for all tax years beginning on or after January 1, 2021. Therefore, the first tax returns filed claiming this tax credit would begin after January 1, 2022 (Fiscal Year 2022). Oversight will show the full impact beginning Fiscal Year 2022 for the purposes of this fiscal note.

DOR states this legislation would result in the creation of a new line on the Forms MO-1040, MO-1040A, and MO-1040P. Because the MO-PTC (Senior Citizen Property Tax Relief) does not measure Missouri Adjusted Gross Income (MAGI), the credit would not be on that form.

DOR states one (1) Revenue Processing Technician I (\$24,360 annually) is required for every 14,700 errors created, one (1) Revenue Processing Technician I is required for every 5,700 pieces of correspondence generated, one temporary employee for the new line item required on Missouri tax returns, and \$2,000 for forms and programming changes.

Oversight notes that the population of individuals who may qualify for the tax credit created under this proposed legislation is in excess of the thresholds established for FTE by DOR. Oversight will include the cost of the FTE(s) for the purposes of this fiscal note beginning in Fiscal Year 2022 (allowing 6 months of on job training and programming before first return claiming this tax credit is filed).

Oversight notes this proposed legislation establishes the Missouri Sales Tax Fairness Tax Credit Act. For all tax years beginning on or after January 1, 2021, a resident individual could qualify for the base tax credit created under Section 135.1200 provided the individual meets the income thresholds established. If the individual qualifies for the base tax credit, the individual could qualify for an increase in the base tax credit amount if the individual claimed and was awarded the Child Tax Credit (CTC) allowed pursuant to 26 U.S.C. Section 24 (per this proposed legislation, no additional credit is provided to individuals who file with a filing status of single). Oversight provides the base tax credit amounts allowed with the income thresholds below:

Filing Status	Maximum Income Threshold to Qualify	Base Tax Credit Amount
Single	\$20,000	\$125
Married Filing Combined	\$40,000	\$175
Head of Household	\$30,000	\$175
Qualified Widow	\$30,000	\$175

If an individual meets the income thresholds to qualify for the base tax credit, the individual could qualify for an additional amount to be added to the base tax credit. The additional amount is awarded to an individual based on the number of dependents allowed when claiming the CTC allowed on their Federal Tax Return. Oversight provides the amount of additional tax credit that may be awarded to an individual based on their Federal CTC below:

ASSUMPTION (continued)

Filing Status	Additional Credit/# of Children (If Qualified For Federal CTC)		
	One Child	Two	Three (or More)
Single	\$0	\$0	\$0
Married Filing Combined	\$25	\$50	\$50
Head of Household	\$25	\$25	\$50
Qualified Widow	\$25	\$25	\$50

Oversight notes the income thresholds created pursuant to Section 135.1200 are established to acknowledge and determine the maximum credit an individual could receive, specific to their income and CTC. Oversight also notes this proposed legislation has created a phase-out provision for individuals' whose income is in excess of the income thresholds. A tax credit created under this proposed legislation could be awarded at a reduced rate to an individual who files single and whose income exceeds \$20,000; to individuals filing married/combined whose income is in excess of \$40,000; to individuals filing head of household whose income is in excess of \$30,000; and to individuals filing as a qualified widow whose income is in excess of \$30,000. Oversight provides the rates for individuals whose income exceeds the income thresholds created below:

Filing Status	Income Threshold to Qualify for Max Credit	Phase Out Provisions/Reduction in Tax Credit
Single	\$20,000	Reduction of \$10 for every \$500 in excess of threshold
Married Filing Combined	\$40,000	Reduction of \$20 for every \$1,000 in excess of threshold
Head of Household	\$30,000	Reduction of \$15 for every \$750 in excess of threshold
Qualified Widow	\$30,000	Reduction of \$15 for every \$750 in excess of threshold

Oversight provides the maximum Missouri Adjusted Gross Income (MAGI) an individual could report in order to receive the smallest amount of tax credit that could be awarded under the phase out provision (assumes maximum amount of additional credit allowed):

ASSUMPTION (continued)

Filing Status	Max Income Threshold to Qualify for Max Base Credit	Max Income to Qualify for Minimum Credit
Single	\$20,000	\$26,000
Married Filing Combined	\$40,000	\$51,000
Head of Household	\$30,000	\$40,500*
Qualified Widow	\$30,000	\$40,500*

* See page 4 for explanation of difference between B&P and Oversight calculations.

Using income and filing status data published by the IRS, specific to the State of Missouri, for Tax Year 2017, the most recent tax year available, Oversight has estimated the following minimal decrease (range of zero children claimed for CTC to three (or more) children claimed for CTC) to TSR and GR, specific to the Missouri Sales Tax Fairness Tax Credit Act, beginning in Fiscal Year 2022:

Fiscal Year	Impact (Reduction) to TSR/GR
FY 2021	\$0
FY 2022	(\$181,668,000) to (\$207,413,500)
FY 2023	(\$181,668,000) to (\$207,413,500)

For the purposes of this fiscal note, Oversight will show the impact, specific to the tax credit, up to the largest estimated reduction in TSR and GR (DOR).

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 \$5,000. 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)

Officials from the **Joint Committee on Administrative Rules (JCAR)** assume this proposal is not anticipated to cause a fiscal impact beyond current appropriations.

Oversight assumes JCAR will be able to administer any rules resulting from this proposal with existing resources.

FISCAL IMPACT - State Government FY 2021 FY 2022 FY 2023

GENERAL REVENUE FUND

<u>Revenue Reduction</u> (Section 135.1200) - Missouri Sales Tax Fairness Tax Credit	\$0	Up to <u>(\$210,632,960)</u>	Up to <u>(\$210,632,960)</u>
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<u>Cost - DOR</u> (Section 135.1200)			
Personal Services (2 FTE)	\$0	(\$57,453)	(\$58,027)
Fringe Benefits	\$0	(\$42,120)	(\$42,311)
Equipment and Expense	\$0	(\$14,776)	\$0
Programming Expense	<u>\$0</u>	<u>(\$2,000)</u>	<u>\$0</u>
<u>Total Cost - DOR</u>	<u>\$0</u>	<u>(\$116,349)</u>	<u>(\$100,338)</u>
FTE Change - DOR	0 FTE	2 FTE	2 FTE

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	Up to <u>(\$210,749,309)</u>	Up to <u>(\$210,733,298)</u>
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Estimated Net FTE Change on the General Revenue Fund	0 FTE	2 FTE	2 FTE
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<u>FISCAL IMPACT - Local Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

For all tax years beginning on or after January 1, 2021, this act allows a taxpayer a tax credit equal to \$125 for taxpayers filing single and \$175 for taxpayers filing married filing combined, head of household, or qualified widow or widower, with an additional \$25 or \$50 for taxpayers claiming the federal Child Tax Credit, as described in the act.

The tax credit shall be phased out based on filing status and income. For taxpayers filing single, for each \$500 in excess of \$20,000 Missouri adjusted gross income, the credit shall be reduced by \$10. For taxpayers filing head of household or qualified widow or widower, for each \$750 in excess of \$30,000 Missouri adjusted gross income, the credit shall be reduced by \$15. For taxpayers filing married filing combined, for each \$1,000 in excess of \$40,000 Missouri adjusted gross income, the credit shall be reduced by \$20. The tax credit is not transferable, but shall be refundable. (Section 135.1200)

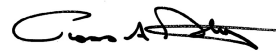
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration - Division of Budget and Planning
Missouri Department of Revenue
Missouri Secretary of State's Office
Joint Committee on Administrative Rules



Julie Morff
Director
January 9, 2020



Ross Strobe
Assistant Director
January 9, 2020