

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1385S.02I
Bill No.: SB 358
Subject: Taxation and Revenue - Income; Unemployment Compensation
Type: Original
Date: March 31, 2021

Bill Summary: This proposal would authorize a tax deduction for unemployment compensation received during the 2020 tax year.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue Fund	(\$270,326,165)	\$0	\$0
Total Estimated Net Effect on General Revenue	(\$270,326,165)	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation could reduce Total State Revenue (TSR) by \$270,929,148 in Fiscal Year 2022 only. This proposed legislation will not impact any fiscal year beyond Fiscal Year 2022.

B&P states this proposed legislation may impact the calculation under Article X, Section 18(e).

Section 143.121 – Subtraction of Tax Year 2020 Unemployment Benefits From Federal Adjusted Gross Income

Officials from **B&P** state this proposed legislation would allow taxpayers to subtract unemployment benefits from their Federal Adjusted Gross Income (FAGI) when calculating their Missouri Adjusted Gross Income (MAGI). The subtraction may be taken on a taxpayer's 2020 or 2021 tax return. The subtraction shall be equal to 100% of the unemployment benefits received during Tax Year 2020.

B&P notes that this proposed legislation would begin August 28, 2021 after tax returns for 2020 have been filed (due date April 15, 2021) and after the start of Fiscal Year 2022. Therefore, taxpayers would have to either amend their Tax Year 2020 returns or take the subtraction on their Tax Year 2021 return (due April 15, 2022). Therefore, B&P estimates that this proposed legislation will impact Fiscal Year 2022, no matter which return taxpayers apply the subtraction.

Based on information provided by the Missouri Department of Labor and Industrial Relations, in Calendar Year 2020, total unemployment benefits paid to taxpayers, including special federal COVID-19 programs, was \$5,005,410,156.

However, subtractions do not reduce revenues on a dollar for dollar basis, but rather depend on the top tax rate applied. B&P notes that the top Individual Income Tax rate for both Tax Year 2020 and Tax Year 2021 is 5.4%. Therefore, B&P estimates that this proposal will reduce TSR and GR by \$270,292,148 ($\$5,005,410,156 \times 5.4\%$) in Fiscal Year 2022. This proposed legislation will not impact TSR or General Revenue (GR) outside of Fiscal Year 2022.

Officials from the **Missouri Department of Revenue (DOR)** state, for any tax year beginning on or after January 1, 2020, and ending on or before December 31, 2021, to calculate Missouri Adjusted Gross Income, there shall be subtracted from a taxpayer's Federal Adjusted Gross Income one hundred percent (100%) of the amount of benefits received pursuant to Chapter 288 (unemployment benefits) during the tax year beginning on or after January 1, 2020, and ending on or before December 31, 2020. A deduction taken pursuant to this subsection shall only be taken for one tax year.

This proposed legislation allows for the deduction of unemployment benefits to a taxpayer's Federal Adjusted Gross Income for the calculation of Missouri tax. The Department of Labor and Industrial Relations provided the grand total of all the unemployment benefits paid out for Calendar Year 2020 as \$5,005,410,156.

DOR notes that only unemployment benefits received during Tax Year 2020 (January 1, 2020-December 31, 2020) are eligible for this deduction. However, this proposed legislation allows the taxpayers to claim this tax deduction on either their Tax Year 2020 or 2021 return. It should be noted that the Tax Year 2020 returns began being filed on January 1, 2020. Given the current economic climate it is assumed that all of the eligible filers would file for the deduction on their 2020 return. It is assumed that based on when this proposed legislation becomes effective, that most of the eligible filers would be required to amend their returns to claim the deduction. For the simplicity of the fiscal note, DOR will assume these amendments will be received starting in Fiscal Year 2022 (which begins July 1, 2021).

DOR notes that deductions do not reduce revenue on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, using the Department of Labor and Industrial Relations' unemployment benefits paid and the top tax rate of 5.4%, DOR estimates the loss to GR as \$270,292,148

DOR anticipates this proposed legislation will require form and system updates. DOR estimates the form and system updates will result in a cost equal to \$2,000.

DOR anticipates this proposed legislation will require five (5) Temporary Tax Employees to process amended returns received after July 1, 2021.

For purposes of this fiscal note, **Oversight** will include DOR's estimated administrative costs. Oversight does not anticipate DOR's administrative costs will extend beyond Fiscal Year 2022.

However, Oversight assumes the five (5) Temporary Tax Employees will not receive fringe benefits. Oversight further assumes DOR can provide equipment and expense for each of the five (5) Temporary Tax Employees. Therefore, for purposes of this fiscal note, Oversight will not report fringe benefits or equipment and expense for the five (5) Temporary Tax Employees reported.

Officials from the **Missouri Department of Labor and Industrial Relations** do not anticipate this proposed legislation will cause a fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will not report a fiscal impact for this organization.

For purposes of this fiscal note, **Oversight** will report a revenue reduction to GR equal to the amount estimated by B&P and DOR in Fiscal Year 2022.

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE FUND			
<u>Revenue Reduction – Section 143.121 – Subtraction For Unemployment Benefits Received Between 01/01/2020 and 12/31/2020 p. 3</u>	(\$270,292,148)	\$0	\$0
<u>Cost – DOR – Section 143.121</u>			
Personnel Services	(\$34,017)	\$0	\$0
Fringe Benefits	\$0	\$0	\$0
Equipment & Expense	\$0	\$0	\$0
Total Cost – DOR p. 4	(\$34,017)	\$0	\$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(\$270,326,165)	\$0	\$0

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
	\$0	\$0	\$0

FISCAL IMPACT – Small Business

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

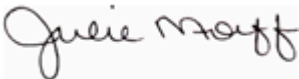
FISCAL DESCRIPTION

For the 2020 and 2021 tax years, this act authorizes a taxpayer to deduct 100% of the amount of unemployment benefits received during the 2020 tax year. The deduction authorized by this act shall only be taken for one tax year.

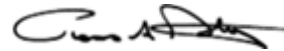
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration – Budget & Planning Division
Missouri Department of Labor and Industrial Relations
Missouri Department of Revenue



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Director
March 31, 2021



Ross Strobe
Assistant Director
March 31, 2021