

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1873S.01I
Bill No.: SB 428
Subject: Taxation and Revenue - Income
Type: Original
Date: March 24, 2021

Bill Summary: Modifies provisions relating to the deduction of federal income taxes paid.

FISCAL SUMMARY

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

*Oversight notes the fiscal impact of (Unknown) in Fiscal Year 2022 represents the State of Missouri not collecting state income tax on the third round of federal stimulus refunds distributed in 2021. The estimated impact(s) cannot currently be estimated. However, this is not a loss of current funding or a new expense, but rather a non-collection (forgone income) of a potential one-year windfall of income taxes. Oversight assumes the foregone income will considerably exceed \$250,000 in FY 2023.

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

Numbers within parentheses: () indicate costs or losses.

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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 may reduce Total State Revenue in Fiscal Year 2022. Furthermore, this proposed legislation may impact the calculation under Article X, Section 18(e).

Section(s) 143.121 & 143.171 – Federal Income Tax Deduction

Officials from **B&P** state Section 143.121 provides that, for Tax Year 2021, a taxpayer shall not include any federal refunds related to COVID-19 stimulus tax credits in their Missouri Adjusted Gross Income (MAGI). B&P notes that individuals who itemize their tax deductions may be required to include federal tax refunds within their MAGI. This provision would exclude refunds due to the COVID-19 stimulus tax credit from this requirement. B&P further notes that this would only apply to qualifying tax credit refunds that impact a taxpayer's **Tax Year 2021** liability. This provision would **not** exempt the second stimulus payments passed by the 116th United States Congress in December 2020.

Section 143.171 would allow taxpayers to add their COVID-19 stimulus tax credit amount for Tax Year 2021 back to their final federal tax due amount, for the purpose of taking the Missouri Federal Income Tax Deduction. B&P notes that typically anything that reduces federal income taxes due would also reduce the Federal Income Tax Deduction amount. B&P further notes that this would only apply to qualifying tax credits that impact a taxpayer's **Tax Year 2021** liability. This provision would **not** exempt the second stimulus payments passed by the 116th United States Congress in December 2020.

B&P notes that no COVID-19 related tax credits have yet been passed by the 117th United States Congress; however, additional aid is being debated. Therefore, B&P estimates that this provision may reduce TSR and General Revenue (GR) by an unknown amount in Fiscal Year 2022, if additional federal stimulus credits are passed during Tax Year 2021.

Officials from the **Missouri Department of Revenue (DOR)** state, in response to the COVID pandemic, the U.S. Congress authorized the Internal Revenue Service (IRS) to make economic stimulus payments to taxpayers. The first round of the economic stimulus payments were issued beginning in April 2020. A second round was distributed starting in December 2020. These were issued by the IRS as tax credits against taxpayer's 2020 tax return. It was the intention of the U.S. Congress to make these stimulus payments tax free at the federal level.

However, due to the way Missouri's Federal Income Tax (FIT) Deduction works, items that decrease the federal income tax would reduce the Missouri FIT deduction which would cause an increase in a taxpayer's Missouri tax liability. The intent of this legislation appears to exclude

future economic stimulus payments from the Missouri FIT calculation and not impact a taxpayer's tax liability.

[SB 676 \(2020\)](#) previously exempted the first economic stimulus payments that were issued in April 2020, from inclusion in a taxpayer's FIT deduction; however, the second round of economic stimulus payments that began being distributed in December 2020, are not exempted. This proposed legislation does not address the second round of stimulus payments issued in December.

This proposed legislation, in Section(s) 143.121 and 143.171, would allow for Tax Year 2021 a taxpayer to not include any federal refunds related to COVID-19 stimulus tax credits in their Missouri Adjusted Gross Income (MAGI). DOR notes this proposed legislation is only for federal income tax refunds enacted by the 117th United States Congress. At the time of responding to this fiscal note, the 117th Congress has ongoing talks about a third round of economic stimulus payments. Since it is unclear if 117th Congress will actually issue additional future economic stimulus, DOR is unable to determine if this proposed legislation will have a fiscal impact. Should additional economic stimulus payments be issued, then this proposed legislation would result in an Unknown loss to GR in Tax Year 2021 (Fiscal Year 2022).

Oversight notes this proposed legislation is specific to tax credit(s) passed by the 117th United States Congress for the tax year beginning on or after January 1, 2021, and ending on or before December 31, 2021.

Oversight notes the analyses provided by B&P and DOR were completed prior to the passage of the “American Rescue Plan Act of 2021” by the 117th U.S. Congress in March, 2021.

Oversight notes, per the American Rescue Plan Act of 2021, eligible individuals were/are permitted to receive a “rebate amount” equal to \$1,400 per taxpayer or \$2,800 in the case of married individuals **plus** an amount equal to \$1,400 multiplied by the number of dependents of the taxpayer(s).

Oversight notes, per the American Rescue Plan Act of 2021, eligible individuals can receive the rebate amount in full so long as the taxpayer’s adjusted gross income does not exceed: \$75,000 for individuals filing single, \$150,000 for individuals filing married and individuals filing as a surviving spouse, and \$112,500 for individuals filing head of household.

If the aforementioned adjusted gross income amount(s) are exceeded, the amount of rebate shall be reduced.

Oversight assumes, since the rebates of the American Rescue Plan Act of 2021 were/are being issued during Tax Year 2021, any fiscal impact(s), as it relates to Missouri’s Individual Income Tax, as a result of, and specific to, the American Rescue Plan Act of 2021, would not be recognized until eligible individuals file their Tax Year 2021 tax returns after January 1, 2022 (Fiscal Year 2022).

Oversight assumes any fiscal impact(s), in relation to the most recent rebate payments, would be specific to the rebate payments **not** made directly to taxpayers in the form of a check or direct deposit. Rather, the impact would be the result of any taxpayer(s) who does not receive the rebate payment(s) by check or direct deposit or received a partial amount, but qualifies for such rebate payment(s), in which such amount(s) would be received when such individual(s) file such federal taxes for Tax Year 2021.

Oversight is unaware of existing data that indicates how many individuals, if any, must file their Tax Year 2021 to receive the rebate payment as a result of the American Rescue Plan Act of 2021.

Oversight assumes, though, that the possibility exists for individuals who did receive, what such individuals expected to be, the rebate payment in full, to receive additional rebate when such individual(s) file their federal tax returns for Tax Year 2021. For example, should such individual(s) have a child during Calendar Year 2021, the IRS may award additional rebate for such child.

Oversight also notes the American Rescue Plan Act of 2021 provides for an increased Federal Child Tax Credit; increasing the credit from \$2,000 to \$3,000 for children under the age of eighteen (18) but older than the age of five (5) and from \$2,000 to \$3,600 for children under the age of six (6). In addition, the American Rescue Plan Act of 2021 provides that children under the age of eighteen (18) will qualify for the Federal Child Tax Credit as opposed to children under the age of seventeen (17). Oversight is unable to determine whether the expansion of the Federal Child Tax Credit will result in a fiscal impact under this proposed legislation.

Oversight notes the aforementioned, though, because this proposed legislation states that “**any** amount of federal income tax refund attributable to a tax credit related to severe acute respiratory syndrome coronavirus 2, enacted by the 117th United States Congress, reducing a taxpayer’s federal tax liability for the tax year beginning on or after January 1, 2021, and ending on or before December 31, 2021...” (Section 143.121) and “... **any** comparable tax credit passed by the 117th United States Congress for the tax year beginning on or after January 1, 2021, and ending on or before December 31, 2021” (Section 143.171). Oversight notes the Federal Child Tax Credit is reported on the Federal tax return **after** the taxpayer’s “tax” is reported but **before** the taxpayer’s “total tax” is reported. Therefore, Oversight assumes the amount(s) so expanded **may** qualify under this proposed legislation.

For purposes of this fiscal note, **Oversight** will report a revenue reduction equal to an “Unknown” amount in Fiscal Year 2022. Oversight assumes the revenue reduction **could** exceed \$250,000. Oversight does not anticipate this proposed legislation will result in a fiscal impact beyond Fiscal Year 2022.

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE FUND			
<u>Revenue Reduction – Section(s) 143.121 & 143.171 – Exclusion/Add-Back Of Any COVID-19 Tax Credit(s) When Calculating MAGI and FIT Deduction</u>	<u>\$0</u>	<u>(Unknown)</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(Unknown)</u>	<u>\$0</u>

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

Current law allows a taxpayer to deduct from his or her Missouri adjusted gross income a portion of his or her federal income taxes paid. For the tax year beginning on or after January 1, 2021, and ending on or before December 31, 2021, this act provides that federal income tax credits enacted by the 117th U.S. Congress, and received as a stimulus payment related to severe acute respiratory syndrome coronavirus 2, shall not be considered when determining the amount of federal income tax liability allowable as a deduction under current law. (Section 143.171)

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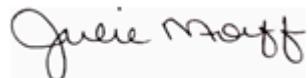
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Current law also requires taxpayers who itemize deductions to include any federal income tax refund amounts in his or her Missouri adjusted gross income if such taxpayer previously claimed a deduction for federal income tax liability on his or her Missouri income tax return. For the tax year beginning on or after January 1, 2021, and ending on or before December 31, 2021, this act provides that any amount of a federal income tax refund attributable to a tax credit enacted by the 117th U.S. Congress, and received as a stimulus payment related to severe acute respiratory syndrome coronavirus 2, shall not be included in the taxpayer's Missouri adjusted gross income. (Section 143.121)

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 Revenue



Julie Morff
Director
March 24, 2021



Ross Strope
Assistant Director
March 24, 2021