

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2716S.01I
 Bill No.: SB 627
 Subject: Taxation And Revenue - Income
 Type: Original
 Date: April 14, 2021

Bill Summary: This proposal would reduce the top rate of income tax by 0.5%.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue Fund	(\$222,374,838)	(\$528,535,606)	(\$526,315,704)
Total Estimated Net Effect on General Revenue	(\$222,374,838)	(\$528,535,606)	(\$526,315,704)

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 will reduce Total State Revenue (TSR) by \$524,141,586 once [SB 509 \(2014\)](#) has fully implemented.

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

Section 143.011 – Individual Income Tax

Officials from **B&P** state this proposed legislation would reduce the top Individual Income Tax rate by 0.5% beginning with Tax Year 2022.

Based on current revenue forecasts and average revenue growth, B&P estimates that revenues in Fiscal Year 2021, Fiscal Year 2024, and Fiscal Year 2025 will reach the SB 509 (2014) growth trigger requirement for reductions to the top rate of tax. Therefore, the top rate of tax will be reduced by 0.1% in Tax Year(s) 2022, 2025, and 2026 under SB 509 (2014). Table 1 shows the current versus proposed future top tax rates.

Table 1: Current vs. Proposed Tax Rates

Tax Year	Current Law	Proposed Reduction	Proposed Tax Rate
2021	5.40%		5.40%
2022	5.30%	0.50%	4.80%
2023	5.30%		4.80%
2024	5.30%		4.80%
2025	5.20%		4.70%
2026	5.10%		4.60%

Using 2018 tax year data, the most current complete year available, and accounting for the changes in Individual Income Tax law created by SB 509 (2014) and HB 2540 (2018), B&P estimates that this section will reduce TSR and General Revenue (GR) by \$529,463,900 in Tax Year 2022. Table 2 shows the estimated impact by tax year.

Table 2: Rate
Reduction by
Calendar Year

Tax Year	GR Impact
2022	(\$529,463,900)
2023	(\$527,253,677)
2024	(\$525,020,408)
2025	(\$523,846,270)
2026	(\$524,141,586)

However, because the tax reduction would take effect January 1, 2022, individuals will adjust their withholdings and declarations during Fiscal Year 2022. Therefore, B&P estimates that this proposed legislation will reduce TSR and GR by \$222,374,838 in Fiscal Year 2022. Once SB 509 (2014) has fully implemented, this proposed legislation will reduce TSR and GR by \$524,141,586 annually.

Table 3: Rate Reduction
by Fiscal Year

Fiscal Year	GR Impact
2022	(\$222,374,838)
2023	(\$528,535,606)
2024	(\$526,315,704)
2025	(\$524,527,270)
2026	(\$523,970,303)
2027	(\$524,141,586)

Officials from the **Missouri Department of Revenue (DOR)** state, starting January 1, 2022, this proposed legislation would reduce the Individual Income Tax rate by half of one percent (0.5%). Currently, SB 509 is projected to reduce the current Individual Income Tax rate from 5.4% to 5.3% on January 1, 2022. This proposed legislation would reduce the rate from the 5.3% to 4.8%.

DOR used its internal Income Tax Model that contains confidential taxpayer data to calculate the fiscal impact. This proposed legislation, in addition to future projected SB 509 reductions, would result in the following loss per calendar year to GR.

Tax Year	Loss to GR
2022	(\$527,678,150)
2023	(\$525,475,865)
2024	(\$523,252,850)
2025	(\$521,875,073)
2026	(\$522,170,341)
2027	(\$519,734,536)

DOR uses a 42%/58% split when converting from a calendar (tax) year to a fiscal year. This will result in the following fiscal year impact(s).

Fiscal Year	Loss to GR
2022	(\$221,624,823)
2023	(\$526,753,190)
2024	(\$524,542,199)
2025	(\$522,674,184)
2026	(\$521,999,086)
2027	(\$521,147,303)

DOR assumes the change in the top rate of tax would require form and programming changes to the MO-1040, MO-1040A, and MO-1040P which is beyond DOR's normal programming changes from year to year. DOR estimates this cost would amount to \$2,000.

Oversight notes DOR anticipates a cost of \$2,000 in order to complete form(s) and programming changes. Oversight notes, per DOR, the top Individual Income Tax rate is already projected to be reduced for Tax Year 2022, pursuant to SB 509 (2014). Oversight assumes: 1) DOR would, instead of changing the rate to 5.3% for Tax Year 2022, change the rate to 4.8% and 2) the amount of \$2,000 to be minimal and not material enough to include in the fiscal note.

Therefore, for purposes of this fiscal note, **Oversight** assumes DOR can absorb the costs associated with the form(s) and programming changes required as a result of this proposed legislation.

Officials from the **University of Missouri's Economic & Policy Analysis Research Center (EPARC)** state this proposed legislation would reduce the top Individual Income Tax rate by one-half of one percent (0.5%) for the 2022 calendar year.

EPARC assumes this proposed legislation could reduce Net General Revenue by \$545,261,000 in Fiscal Year 2022.

Oversight notes this proposed legislation would reduce the top rate of Individual Income Tax by one-half of one percent (0.5%) in Calendar Year/Tax Year 2022. Therefore, Oversight assumes the full impact would not be recognized until Fiscal Year 2023 when taxpayers file their Tax Year 2022 tax return.

Oversight notes that it **does not currently have the resources and/or access to state tax data** to produce an independent revenue estimate and is unable to verify the revenue estimates provided by B&P and DOR.

For purposes of this fiscal note, **Oversight** will report the revenue changes, as estimated by B&P

<u>FISCAL IMPACT –</u> <u>State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE FUND			
<u>Revenue Reduction –</u> Section 143.011 – Individual Income Tax Rate Reduction (0.5%)	(\$222,374,838)	(\$528,535,606)	(\$526,315,704)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(\$222,374,838)	(\$528,535,606)	(\$526,315,704)

<u>FISCAL IMPACT –</u> <u>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.

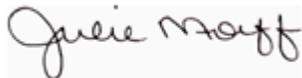
FISCAL DESCRIPTION

Beginning in the 2022 calendar year, this act reduces the top rate of income tax by 0.5%.

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
University of Missouri’s Economic & Policy Analysis Research Center



Julie Morff
Director
April 14, 2021



Ross Strobe
Assistant Director
April 14, 2021