

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2783S.01I
 Bill No.: SB 597
 Subject: Taxation and Revenue - Income
 Type: Original
 Date: May 3, 2021

Bill Summary: This proposal modifies income tax brackets and rates.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2027)
General Revenue Fund	(\$114,620,791) or \$94,459,183	(\$268,758,600) or \$229,050,316	(\$257,448,175) or \$240,360,533	\$192,841,735 or \$690,651,197
Total Estimated Net Effect on General Revenue	(\$114,620,791) or \$94,459,183	(\$268,758,600) or \$229,050,316	(\$257,448,175) or \$240,360,533	\$192,841,735 or \$690,651,197

*Oversight notes the negative “or” positive amount(s) reported, and the positive to positive \$192,841,735 or \$690,651,197 in the fully implemented year, are the result of two differing scenarios that could occur under this proposed legislation, as it is unclear how taxpayer’s with taxable income in excess of \$9,000 should calculate their tax.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2027)
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2027)
Total Estimated Net Effect on All Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2027)
Total Estimated Net Effect on FTE	0	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	Fully Implemented (FY 2027)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation will increase Total State Revenues (TSR) by either \$192,841,735 or by \$690,561,179 once SB 509 (2014) has fully implemented.

This proposed legislation will impact the calculation under Article X, Section 18(e). B&P notes that the net increase in state revenues as a result of this proposed legislation exceeds the limit of revenue growth set forth by Article X, Section 18(e). The limit for the 2021 session is \$111.8 million.

Section 143.011 – Individual Income Tax Rate(s)

Officials from **B&P** state this proposed legislation would replace the current Individual Income Tax brackets and rates with two (2) brackets and a tax rate formula.

B&P notes that the proposed legislation is unclear as to whether taxable income greater than \$9,000 would be taxed using both formulas (one for the income up to \$9,000 and the other for the income above \$9,000) or if individuals with taxable income below \$9,000 would be taxed with the first formula and individuals with taxable income above \$9,000 would be taxed using the second formula. Therefore, B&P has provided estimates for both options.

The proposed legislation states that for Missouri taxable income of “not over \$9,000”, the income shall be taxed at a rate of $((YTI / C) + 0.014) * (YTI)$. Missouri taxable income over \$9,000 shall be taxed at a rate of $(0.054 - (D / YTI)) * (YTI)$. Where “YTI” is the amount of taxable income multiplied by the number of filing periods, “C” is 468,262, and “D” is 187.

B&P notes that Individual Income Tax only has 1 filing period; therefore, “YTI” will always equal taxable income. B&P further notes that while individuals may make up to 4 declarations and/or up to 52 withholding payments per year, those payments are only a pre-payment of the final tax due amount for the entire tax year. They are not separate filing periods.

Therefore, the tax rate formulas will be:

- Income not over \$9,000 - $((\text{Taxable Income} / 468,262) + 0.014) \times \text{Taxable Income}$
- Income over \$9,000 - $(0.054 - (170 / \text{Taxable Income})) \times \text{Taxable Income}$

B&P also notes that this proposed legislation would end the tax rate reductions and bracket inflation currently in law. 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).

Option 1

For option 1, B&P assumes that all taxable income below \$9,000 would be taxed using the first listed formula: $((YTI / 468,262) + 0.014) * (YTI)$. All taxable income above \$9,000 would be taxed using the second listed formula: $(0.054 - (170 / YTI)) * (YTI)$. Individuals making over \$9,000 would be taxed at both rates: $((\$9,000 / 468,262) + 0.014) * (\$9,000) + (0.054 - (170 / (YTI - \$9,000))) * (YTI - \$9,000)$.

Using 2018 tax year data, the most recent complete year available, B&P estimates that this proposed legislation would decrease TSR and General Revenue (GR) by \$272,906,646 in Tax Year 2022. Table 1 shows the estimated impact by tax year.

Table 1: Option 1 Impact
to GR by Tax Year

Tax Year	GR Impact
2022	(\$272,906,646)
2023	(\$263,030,346)
2024	(\$249,739,464)
2025	(\$28,439,134)
2026	\$192,841,735

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 \$114,620,791 in Fiscal Year 2022. Once fully implemented, this proposed legislation will increase TSR and GR by \$192,841,735 annually. Table 2 shows the estimated impact by fiscal year.

Table 2: Option 1 Impact
 to GR by Fiscal Year

Fiscal Year	GR Impact
2022	(\$114,620,791)
2023	(\$268,758,600)
2024	(\$257,448,175)
2025	(\$156,793,325)
2026	\$64,498,831
2027	\$192,841,735

Option 2

For option 2, B&P assumes that all individuals with a taxable income below \$9,000 would be taxed using the first listed formula: $((YTI / 468,262) + 0.014) * (YTI)$. All individuals with a taxable income above \$9,000 would be taxed using the second listed formula: $(0.054 - (170 / YTI)) * (YTI)$.

Using 2018 tax year data, the most recent complete year available, B&P estimates that this proposed legislation would increase TSR and GR by \$224,902,816 in Tax Year 2022. Table 3 shows the estimated impact by tax year.

Table 3: Option 2 Impact
 to GR by Tax Year

Tax Year	GR Impact
2022	\$224,902,816
2023	\$234,777,816
2024	\$248,069,998
2025	\$469,370,328
2026	\$690,651,197

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 increase TSR and GR by \$94,459,183 in Fiscal Year 2022. Once fully implemented, this proposed legislation will increase TSR and GR by \$690,651,197 annually. Table 4 shows the estimated impact by fiscal year.

Table 4: Option 2 Impact to GR by Fiscal Year

Fiscal Year	GR Impact
2022	\$94,459,183
2023	\$229,050,316
2024	\$240,360,533
2025	\$341,016,137
2026	\$562,308,293
2027	\$690,651,197

B&P estimates that this proposed legislation would either reduce TSR and GR by \$114,620,791 or increase TSR and GR by \$94,459,183 in Fiscal Year 2022, depending on how the brackets were applied to an individual's taxable income. Once fully implemented, this proposed legislation will increase TSR and GR by either \$192,841,735 or \$690,651,197, depending on how the brackets were applied to an individual's taxable income. Table 5 shows the summary impact by fiscal year.

Table 5: Summary Impact by Fiscal Year

Fiscal Year	Option 1 Impact	Option 2 Impact
2022	(\$114,620,791)	\$94,459,183
2023	(\$268,758,600)	\$229,050,316
2024	(\$257,448,175)	\$240,360,533
2025	(\$156,793,325)	\$341,016,137
2026	\$64,498,831	\$562,308,293
2027	\$192,841,735	\$690,651,197

B&P notes that the net increase in state revenues by this proposed legislation exceeds the limit to revenue growth set forth by Article X, Section 18(e). The limit for the 2021 session is \$111.8 million.

Officials from the **Missouri Department of Revenue (DOR)** state this proposed legislation appears eliminate the existing 9 Individual Income Tax brackets and replace it with 2 formulas for calculating Individual Income Tax.

DOR notes there are numerous assumptions that can be made when interpreting the proposed legislation, as written. DOR notes it is difficult to determine the actual impact(s) this proposed legislation will have as a result of the differing assumptions.

DOR notes this proposed legislation states the rates are applied to taxable income “not over \$9,000” and over \$9,000.

DOR notes it is unclear whether a person with \$9,000 in taxable income is to use both formulas.

DOR notes it is unclear what income is. For example, is a taxpayer with \$25,000 in total income to use the first formula for the taxpayer’s first \$9,000 and the second formula for the remaining \$16,000 or should such taxpayer use the second formula for the whole \$25,000.

The language should be clarified to make it clear whether a taxpayer’s income is subject to one or both tax brackets.

DOR notes the formula requires using “YTI” which is defined as taxable income times the number of filing periods. The filing period for individual tax returns is always 1 (a calendar year). It is unnecessary to multiple income by 1 as the result is always the income. This appears to add unnecessary steps and confusion to the formula.

DOR notes the formulas rely on strict adherence to the “order of math” in order to calculate. The order is: parentheses, exponents, multiply, divide, addition, and subtraction.

DOR notes this proposed legislation eliminates the existing SB 509 reductions. SB 509 was designed to provide tax cuts in the future. Elimination of SB 509 and the resetting of the new brackets at \$9,000 results in a tax increase.

DOR notes the current projected Individual Income Tax rates are calculated with SB 509 (2014) and HB 2540 (2018) as follows:

Tax Year 2018 it was 5.9% (0.1% reduction from SB 509)

Tax Year 2019 it was 5.4% (0.1% reduction from SB 509 + .4% reduction from HB 2540)

Tax Year 2020 it is 5.4% (no reductions)

Tax Year 2021 it is 5.4% (no reductions)

Tax Year 2022 will be 5.3% (0.1% reduction from SB 509)

Tax Year 2023 will be 5.3% (no reductions)

Tax Year 2024 will be 5.3% (no reductions)

Tax Year 2025 will be 5.2% (0.1% reduction from SB 509)

Tax Year 2026 will be 5.1% (final 0.1% reduction from SB 509)

Tax Year 2027 will be 5.1% from here on out

DOR used its internal Income Tax Model that contains confidential taxpayer data to calculate the fiscal impact. Given the above, and since DOR had to make assumptions based on what was

written, DOR ran the calculations two (2) different ways. DOR notes that when converting tax year data to fiscal year data, DOR uses a 42% in the first year and 58% split in the second year.

Option 1 - assumes that if the taxpayer's total income is \$9,000 or less they use formula 1 and if they have any income over \$9,001, the first \$9,000 is calculated using formula 1 and the rest is calculated using formula 2.

Fiscal Year	
2022	(\$114,620,791)
2032	(\$268,758,600)
2024	(\$257,448,176)
2025	(\$156,793,325)
2026	\$64,498,831
2027	\$192,841,735

Option 2 - Assumes that if a taxpayer's total income is \$9,000 or less then they use formula 1 and if their total income is \$9,001 or higher they only use formula 2.

Fiscal Year	
2022	\$94,459,183
2023	\$229,050,316
2024	\$240,360,532
2025	\$341,016,137
2026	\$562,308,293
2027	\$690,651,197

DOR notes this proposed legislation would require significant forms and programming costs. At the time of this fiscal note, the estimate of such programming costs has not been completed. Once an estimate is received and reviewed, DOR will determine whether an amended response is necessary.

Officials from the **University of Missouri's Economic & Policy Analysis Research Center (EPARC)** state this proposed legislation would change the Missouri Individual Income Tax brackets. Current statutes are changing the income brackets, yearly, increasing them in accordance with the CPI. As well, the top Individual Income Tax rate is decreasing at a rate perhaps reaching 5.3% as early as 2022 should revenue thresholds be met. This proposed legislation would repeal these provisions of Section 143.011 and reduce the number of tax brackets to two (2), immediately.

EPARC estimates this proposed legislation will increase Net General Revenue by \$229,905,000 in Fiscal Year 2022 and each year thereafter.

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, DOR, and EPARC. For purposes of this fiscal note, Oversight will report the revenue estimates provided by B&P and DOR.

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. 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 SOS for administrative rules is less than \$5,000. SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, 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 SOS can sustain with SOS's core budget. Therefore, 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 proposed legislation. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process.

Officials from the **Joint Committee on Administrative Rules** assume this proposed legislation will not cause a fiscal impact beyond its current appropriation.

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

<u>FISCAL</u> <u>IMPACT – State</u> <u>Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2027)
GENERAL REVENUE FUND				
<u>Revenue Change</u> – (Reduction/Gain) – Section 143.011 – Individual Income Tax Rates/Brackets	<u>(\$114,620,791)</u> or \$94,459,183	<u>(\$268,758,600)</u> or \$229,050,316	<u>(\$257,448,175)</u> or \$240,360,533	<u>\$192,841,735 or</u> <u>\$690,651,197</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$114,620,791)</u> or \$94,459,183	<u>(\$268,758,600)</u> or \$229,050,316	<u>(\$257,448,175)</u> or \$240,360,533	<u>\$192,841,735 or</u> <u>\$690,651,197</u>

<u>FISCAL</u> <u>IMPACT –</u> <u>Local</u> <u>Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2027)
	<u>\$0</u>	<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.

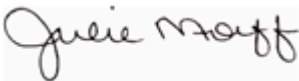
FISCAL DESCRIPTION

This act modifies the income tax rate brackets and tax rates by reducing the number of brackets from ten to two, and by changing the tax rates to formulas, as described in the act.

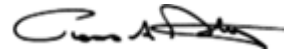
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration – Budget & Planning Division
Missouri Department of Revenue
University of Missouri’s Economic & Policy Analysis Research Center
Missouri Secretary of State’s Office
Joint Committee on Administrative Rules



Julie Morff
Director
May 3, 2021



Ross Strobe
Assistant Director
May 3, 2021