COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3758S.01I
Bill No.: SB 739
Subject: Taxation and Revenue - Income
Type: Original
Date: January 19, 2022

Bill Summary: This proposal reduces the top rate of income tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue	($319,785,198)	($745,068,704)	($715,334,895)
Total Estimated Net Effect on General Revenue	**($319,785,198)**	**($745,068,704)**	**($715,334,895)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>All</u> Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
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 2023	FY 2024	FY 2025
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (B&P)** state this proposal will impact the calculation under Article X, Section 18(e).

B&P notes starting with tax year 2022, this proposal would reduce the top individual income tax rate by 0.1% in tax years immediately following a fiscal year where net general revenue collections exceed the baseline net general revenue allowed.

The initial baseline general revenue amount is $10.3 billion. The baseline net general revenue shall increase by $145 million for each reduction that occurs under Subsection 143.011.4 and more than one reduction may occur per year. For example:

- Example 1: Net general revenues in the first triggering fiscal year are $10.35 billion, then there would be one 0.1% reduction in the tax rate the following tax year and net general revenue collections would have to be at least $10.4 billion before the next rate reduction were to occur.
- Example 2: Net general revenue collections in the first triggering fiscal year are $10.45 billion, then there would be two 0.1% reductions in the tax rate the following tax year and net general revenue collections would have to be $10.5 billion before the next rate reduction were to occur.

B&P notes under Subsection 143.011.2, the top rate of tax is already scheduled to be reduced to 4.8% in the future, dependent on net general revenue growth triggers. Based on current revenue forecasts and average revenue growth, B&P estimates that revenues in FY24 and FY25 will reach the SB 509 (2014) growth trigger requirement for reductions to the top rate of tax. In addition, revenues in FY26 and FY27 will reach the growth trigger requirement for reductions to the top rate of tax. Therefore, the top rate of tax is estimated to be reduced by 0.1% in tax years 2025, 2026, 2027, and 2028 under SB 509 (2014) and SB 153 (2021). However, B&P notes that the implementation of this proposal would likely delay future implementation of the net general revenue growth required reductions under SB 509 (2014) and SB 153 (2021).

B&P also notes that per SB 153 (2021) there will be a 0.1% reduction in the top rate for tax year 2024, which is not dependent on net general revenue growth.

This proposal would start with tax year 2022; however, this proposal would not begin until August 28, 2022. B&P notes that Section 143.01.5(1) requires tax rate changes to begin on January 1st of a calendar year. Therefore, B&P assumes that the first rate reduction could not begin until tax year 2023, based on revenue growth in FY22.

ASSUMPTION (continued)

B&P notes that the Revised CRE for FY22 is $11.2 billion and the CRE for FY23 is $11.4 billion. B&P notes that the baseline net general revenue amount in the bill is $10.3 billion. Therefore, this proposal would trigger an income tax reduction for tax year 2023. In addition, multiple
reductions may occur at one time, with each reduction requiring an additional $145 million in net general revenue collections.

Tax Year 2023

Based on the revised CRE for FY23, general revenue collections would trigger seven reductions in the top income tax rate. B&P used the following math to determine the number of rate reductions that would be triggered for tax year 2023.

Step 1: Determine Initial Trigger

$11.2 billion - Revised CRE FY22
- $10.3 billion - Baseline

$883.7 million additional collections

Step 2: Determine Additional Triggers

$883.7 million / $145.0 million = 6 additional triggers

Therefore, B&P estimates that based on the revised FY22 CRE, seven reductions (baseline + six additional) will occur for tax year 2023. B&P notes that under current law, the top tax rate for tax year 2023 will be 5.3%. Therefore, this proposal would reduce the top tax rate to 4.6% (5.3% - 0.7% = 4.6%).

ASSUMPTION (continued)

Tax Year 2024
B&P followed the same steps above to determine whether net general revenue collections in FY23 would exceed the increased baseline.

Step 1: Determine New Baseline

$145 million - increase per triggered reduction
x 7 triggered reductions (TY23)
$1.015 billion - baseline increase
+ $10.3 billion original baseline
$11.315 billion new baseline

Step 2: Determine Initial Trigger

$11.4 billion - FY23 CRE
- $319.8 million - estimated FY23 impact from TY23 reductions
$11.1 billion - Adjusted FY23 revenue estimate

($216.2) million revenues over (under) baseline

Therefore, B&P estimates that this proposal will not trigger for tax year 2024, once the FY23 CRE has been adjusted to account for the lost revenue due to the income reductions triggered in tax year 2023.

B&P notes that the top rate of tax will still be reduced in tax year 2024 by 0.1% under SB 153 (2021). However, the revenue loss in FY23 will prevent the final 5% phase-in of the pass-through business exemption (SB 509) and the first 10% phase-in of the MO Working Family Tax Credit (SB 153). Under current revenue estimates, both are expected to be triggered for tax year 2024.

ASSUMPTION (continued)

Future Triggers
B&P is unable to determine when and the number of reductions for any tax year beyond tax year 2024. The table below shows the estimated top tax rate and baseline as this proposal is implemented over time.

Table 1: Estimated Proposal Implementation

Tax Year	Top Tax Rate	Change	New Baseline
2022	5.3%	N/A	$10,300,000,000
2023	4.6%	0.7% - Proposal	$11,315,000,000
2024	4.5%	0.1% - SB 153 (2021)	$11,315,000,000
20XX	4.3%	0.1% - SB 509 (2014) 0.1% - Proposal	$11,460,000,000
20XX	4.1%	0.1% - SB 509 (2014) 0.1% - Proposal	$11,605,000,000
20XX	3.9%	0.1% - SB 153 (2021) 0.1% - Proposal	$11,750,000,000
20XX	3.7%	0.1% - SB 153 (2021) 0.1% - Proposal	$11,895,000,000
20XX	3.6%	0.1% - Proposal	$12,040,000,000
20XX	3.5%	0.1% - Proposal	$12,185,000,000
20XX	3.4%	0.1% - Proposal	$12,330,000,000
20XX	3.3%	0.1% - Proposal	$12,475,000,000
20XX	3.2%	0.1% - Proposal	$12,620,000,000
20XX	3.1%	0.1% - Proposal	$12,765,000,000
20XX	3.0%	0.1% - Proposal	$12,910,000,000
20XX	2.9%	0.1% - Proposal	$13,055,000,000
20XX	2.8%	0.1% - Proposal	$13,200,000,000
20XX	2.7%	0.1% - Proposal	$13,345,000,000
20XX	2.6%	0.1% - Proposal	$13,490,000,000
20XX	2.5%	0.1% - Proposal	$13,635,000,000
20XX	2.4%	0.1% - Proposal	$13,780,000,000
20XX	2.3%	0.1% - Proposal	$13,925,000,000
20XX	2.2%	0.1% - Proposal	$14,070,000,000
20XX	2.1%	0.1% - Proposal	$14,215,000,000
20XX	2.0%	0.1% - Proposal	$14,360,000,000
20XX	1.9%	0.1% - Proposal	$14,505,000,000
20XX	1.8%	0.1% - Proposal	$14,650,000,000
20XX	1.7%	0.1% - Proposal	$14,795,000,000

20XX	1.6%	0.1% - Proposal	$14,940,000,000
20XX	1.5%	0.1% - Proposal	$15,085,000,000
20XX	1.4%	0.1% - Proposal	$15,230,000,000
20XX	1.3%	0.1% - Proposal	$15,375,000,000
20XX	1.2%	0.1% - Proposal	$15,520,000,000
20XX	1.1%	0.1% - Proposal	$15,665,000,000
20XX	1.0%	0.1% - Proposal	$15,810,000,000
20XX	0.9%	0.1% - Proposal	$15,955,000,000
20XX	0.8%	0.1% - Proposal	$16,100,000,000
20XX	0.7%	0.1% - Proposal	$16,245,000,000
20XX	0.6%	0.1% - Proposal	$16,390,000,000
20XX	0.5%	0.1% - Proposal	$16,535,000,000
20XX	0.4%	0.1% - Proposal	$16,680,000,000
20XX	0.3%	0.1% - Proposal	$16,825,000,000
20XX	0.2%	0.1% - Proposal	$16,970,000,000
20XX	0.1%	0.1% - Proposal	$17,115,000,000
20XX	0.0%	0.1% - Proposal	$17,260,000,000

B&P notes that while the initial triggers are shown in conjunction with SB 509 (2014) and SB 153 (2021), the income tax reduction triggers are not exactly the same. SB 509 and SB 153 require net general revenue to grow by $150 million over the highest of the previous three fiscal years. While this proposal requires net general revenue to be higher than a baseline amount, with the baseline amount growing by $145 million each time a reduction is triggered. Therefore, it is possible that this proposal and current law could trigger at different times. If such event were to occur, the baseline amounts and corresponding top tax rates shown above would no longer apply.

ASSUMPTION (continued)

Revenue Loss
Using tax year 2019 data, the most recent complete tax year available, and accounting for the changes in individual income tax law created by SB 509 (2014) and SB 153 (2021), B&P estimates that this proposal could reduce GR by $761,393,328 in tax year 2023 and by $722,525,176 in tax year 2024.

Table 1: Impact by Tax Year

Tax Year	GR Loss
2023	($761,393,328)
2024	($722,525,176)
Fully Implemented	($7,122,700,000)

*TY24 - provisions in SB 509 (2014) and SB 153 (2021) would be prevented from triggering.

However, because this proposal would take effect January 1, 2023 individuals will adjust their withholdings and declarations during FY23. Based on actual collections data, B&P estimates that 42% of individual income taxes are paid during fiscal year 1 and 58% are paid during fiscal year 2. Therefore, B&P estimates that this provision may reduce TSR and GR by $319,785,198 in FY23. Based on FY21 individual income tax collections, adjusted for the delayed tax year 2020 due date, B&P estimates that this proposal could reduce TSR and GR by $7,122,700,000 once fully implemented.

Table 2: Impact by Fiscal Year

Fiscal Year	GR Loss
2023	($319,785,198)
2024	($745,068,704)
2025	($722,525,176)
Fully Implemented	($7,122,700,000)

*Provisions in SB 509 (2014) and SB 153 (2021) would be prevented in TY24

Officials from the **Department of Revenue (DOR)** state the current individual income tax rate in Missouri for FY 2022 is 5.3%. SB 509 (2014) allowed the individual income tax rate to be reduced five times over the several years. The rate started at 6%. HB 2540 (2018) allowed for a one-time 0.4% reduction of the individual income tax rate. SB 153 (2021) increased the number of reductions under SB 509 from five to seven. The current forecasted individual income tax rate reduction is estimated to be:

DOR notes the current projected Individual Income Tax Rate are calculated with SB 509 (2014), HB 2540 (2018) and SB 153 (2021) are as follows:
TY 2018 it was 5.9% (0.1% reduction from SB 509)
TY 2019 it was 5.4% (0.1% reduction from SB 509 + .4% reduction from HB 2540)
TY 2020 it is 5.4% (no reductions)
TY 2021 it is 5.4% (no reductions)
TY 2022 will be 5.3% (0.1% reduction from SB 509)
TY 2023 will be 5.3% (no reductions)
TY 2024 will be 5.2% (0.1% reduction from SB 153)
TY 2025 will be 5.1% (0.1% reduction from SB 509)
TY 2026 will be 5.0% (0.1% reduction from SB 509)
TY 2027 will be 4.9% (0.1% reduction from SB 509)
TY 2028 will be 4.8% (final 0.1% reduction from SB 509)
FY 2029 will be 4.8% from here on out

DOR notes this proposal appears to be creating a mechanism to reduce and then eventually eliminate the individual income tax rate all together.

Starting with the 2022 tax year, this proposal would create a reduction in the individual income rate of 0.1% in tax years immediately following a fiscal year where net general revenue collections exceed the baseline net general revenue allowed. Per this proposal, the initial baseline net general revenue amount starts at $10.3 billion. This proposal requires that if the current general revenue collection exceeds the previous year's baseline then a reduction will occur. Additionally, it allows for other reductions if the baseline net general revenue increases by $145 million. For each $145 million increase another reduction is allowed, which could result in more than one reduction annually.

This proposal says it is to start with tax year 2022. However, this proposals effective date is not until August 28, 2022. Section 143.011.5 requires tax rate changes to begin on January 1st of a calendar year. Therefore, the Department assumes the first rate reduction could not occur until tax year 2023 (growth rate not withstanding), based on the timing of the bill.

DOR notes that the Revised CRE for FY 2022 is estimated at $11.2 billion and the CRE for FY 2023 is estimated at $11.4 billion. Based on current revenue forecasts and average revenue growth, the Department assumes the first reduction(s) under this proposal would occur in FY 2023. The first reduction is for the base exceeding the previous year and additional cuts will occur for every $145 million.

Given the Revised CRE for FY 2023 is $11.2 billion and the baseline of this proposal is $10.3 billion, we would expect 6 additional triggers to occur plus the base.
$11.2 billion- revised CRE FY 22
-10.3 billion- baseline
$883.7 million additional collections divided by the $145 million = 6 additional triggers

Therefore, there will be a total of 7 reductions scheduled for TY 2023. The rate will go from the scheduled 5.3% to 4.6% (5.3% - 0.7% = 4.6%).

This would reset the baseline to $11,315,000,000. ($145 m x 7 = $1.015 billion + $10.3 original base)

For FY 2024, the new baseline amount would be $11.315 million. The CRE is estimated at $11.4 billion. Using our internal Income Tax Model that contains confidential taxpayer data, we noted the 0.7% reduction in FY 2023 would result in a loss of $300,440,656 in individual income tax. This would reduce the estimated CRE to $11.1 billion, ($11.4 billion -$300 million) which is below the $11.3 billion new baseline. Therefore, this proposal would not trigger in FY 2024. However, SB 153 requires a 0.1% reduction bringing the tax rate to 4.5% for FY 2024.

The revenue loss projected from FY 2023 will prevent the final 5% phase-in of the pass-through business exemption and the first 10% phase-in of the MO Earned Income Tax Credit. Both of which were to be in effect for FY 2024.

DOR is unable to predict what net general revenue will be in future fiscal years, and therefore we are unable to estimate in which years this proposal may have a fiscal impact. It is noted that based on FY 2021 individual income tax collections, adjusted for the delayed income tax payments, once fully implemented it could reduce TSR and GR by $7,122,700,000.

Impact by Fiscal Year
2023 ($300,440,656)
2024 ($740,958,023)
2025 ($715,334,895)
Fully Implemented ($7,122,700,000)

This would require form and programming changes for each year that the top rate reduction takes place, both for individual income tax and the composite/partnership tax systems.

Oversight notes that DOR assumes this proposal will require programming changes estimated to cost $2,000. Oversight assumes DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Oversight is unable to verify the estimates provided by B&P or DOR. DOR states that information provided on filed tax returns is confidential and therefore, Oversight is unable to review. B&P's calculations are based on tax data they received from DOR. Since Oversight is not allowed to review the data, for fiscal note purposes, Oversight will show the full potential (worst-case scenario) costs for this fiscal note.

FISCAL IMPACT – State Government	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE			
Revenue Reduction - §143.011 Reduction of top rate of income tax p. 8, 10	($319,785,198)	($745,068,704)	($715,334,895)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**($319,785,198)**	**($745,068,704)**	**($715,334,895)**

FISCAL IMPACT – Local Government	FY 2023 (10 Mo.)	FY 2024	FY 2025
	$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

Beginning with the 2022 calendar year, this act provides that the top rate of income tax may be reduced in 0.1% increments. A reduction shall only occur if net general revenue collections in the previous fiscal year exceed baseline net general revenue collections, which shall be $10.3 billion, increased by $145 million for each reduction made pursuant to the act. An additional reduction of 0.1% shall be made for every $145 million of net general revenue collections that is in excess of baseline net general revenue collections during a fiscal year, and more than one reduction may be made during a calendar 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 and Planning
Department of Revenue

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January 19, 2022

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January 19, 2022