

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5953S.02I
 Bill No.: SB 18
 Subject: Taxation and Revenue - Income
 Type: Original
 Date: September 19, 2022

Bill Summary: This proposal modifies provisions relating to income taxes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2031)
General Revenue Fund*	(\$694,178,985)	(\$1,516,368,631)	(\$1,512,824,320)	(\$1,819,561,971)
Total Estimated Net Effect on General Revenue	(\$694,178,985)	(\$1,516,368,631)	(\$1,512,824,320)	(\$1,819,561,971)

*Oversight notes the decline in general revenue due to the Section(s) 143.011, 143.021, 143.131 – Individual Income Tax and Section(s), Section 143.071 – Corporate Income Tax, and 148.720 – Financial Institution Tax.

The Fully Implemented fiscal year (7 additional income tax rate reductions are triggered) could occur well beyond CY 2030 as assumed in the fiscal note.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2031)
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 2023	FY 2024	FY 2025	Fully Implemented (FY 2031)
Total Estimated Net Effect on All Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2031)
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 2023	FY 2024	FY 2025	Fully Implemented (FY 2031)
Local Political Subdivisions*	\$0	(\$52,792,665)	(\$52,792,665)	(\$52,792,665)
Local Government	\$0	(\$52,792,665)	(\$52,792,665)	(\$52,792,665)

*Oversight notes a decline in revenue due to the Section 148.720 –Financial Institution Tax reduction

FISCAL ANALYSIS

ASSUMPTION

Section C in the proposal – enacts Section 143.011 on January 1, 2023.

Sections 143.011, 143.021, and 143.131 – Individual Income Tax

Officials from the **Department of Revenue (DOR)** note in 2013 Missouri's individual income tax rate was 6% per the tax tables printed in statutes. In 2014, SB 509 then allowed for five reductions of the individual income tax rate based on certain revenue triggers (Section 143.011.2). The Department notes that currently three of those reductions have occurred (TY 2018, TY 2019 and TY 2022) and the fourth is forecasted to happen in tax year 2023 which will set the rate at 5.2%.

Additionally, in 2019 HB 2540 was added to statutes that caused the individual income tax rate to be decreased by four-tenths of one percent (Section 143.011.3). Then during the 101st General Assembly regular session SB 153 & 97 was passed that would allow starting in tax year 2024 another two reductions of SB 509 (Section 143.011.4). Therefore as of the filing of the fiscal note the individual income tax rate for tax year 2022 is 5.3% and the tax rate scheduled for tax year 2023 is 5.2%.

This proposal repeals Sections 143.011.2, 143.011.3 and 143.011.4 starting January 1, 2023. This proposal then adds language setting the individual income tax rate at 4.7% starting January 1, 2023. Starting January 1, 2023 in Section 143.021 there would be no tax on taxable income of less than \$1,000. Currently only amounts under \$100 are not taxable.

Additionally, starting in calendar year 2024, it will allow seven additional reductions in the amount of 0.1% with no more than one reduction annually. This proposal creates a trigger for these additional reductions. The reduction will occur if the amount of net general revenue collected in the previous fiscal year exceeds the highest amount of net general revenue collected in any of the three fiscal years prior to such fiscal year by at least one hundred fifty million dollars. Therefore this proposal will ultimately reduce the individual income tax rate to 4.0%.

This proposal will also increase the Missouri standard deduction amount a taxpayer can claim. Beginning on or after January 1, 2023, for every filing status except married filing combined the Missouri standard deduction will be \$2,000 over the allowable federal standard deduction amount. Taxpayers with a filing status of the married filing combined the Missouri standard deduction will be \$4,000 over the allowable federal standard deduction amount.

Using the Department's internal Income Tax Model that contains confidential taxpayer data DOR was able to estimate the following impact of these new changes for tax year 2023.

Tax Year	Amount
2023	(\$803,714,447.41)
2024	(\$798,288,351.49)
2025	(\$796,644,665.05)
2026	(\$792,417,898.66)
2027	(\$791,490,494.13)
2028	(\$895,154,587.70)
2029	(\$997,955,272.39)
2030	(\$1,103,457,542.23)

The Department uses a 42%/58% split to convert the tax year numbers to fiscal year numbers.

Fiscal Year	Loss to GR
2023	(\$337,560,067.91)
2024	(\$801,435,487.13)
2025	(\$797,598,003.19)
2026	(\$794,869,423.17)
2027	(\$792,028,388.76)
2028	(\$835,029,413.43)
2029	(\$938,330,875.27)
2030	(\$1,042,266,225.72)
2031	(\$1,103,457,542.23)

The Department notes these provisions will require changes to the taxpayer program, forms and website. They estimate it will cost \$10,000 for these changes. No additional FTE would be needed to implement these tax changes.

Officials from the **Office of Administration (B&P)** assume the Section 143.011 would reduce the top tax rate to 4.7% beginning with tax year 2023. This provision would allow seven GR growth dependent additional 0.1% reductions in the top rate, beginning with tax year 2024. Each additional reduction shall only occur if net general revenue grows by at least \$150 million above the largest amount collected in the previous three fiscal years.

Section 143.021 would eliminate the bottom individual income tax bracket. Section 143.131 would increase the standard deduction by \$2,000 for individuals and \$4,000 for married filing combined taxpayers.

B&P notes that under current law, the top tax rate will be 5.2% starting with tax year 2023. B&P notes that per SB 153 (2021) there will be a 0.1% reduction in the top rate for tax year 2024. Based on current revenue forecasts and average revenue growth, B&P estimates that revenues in FY24, FY25, and FY26 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 under SB 509 (2014) and SB 153 (2021). For the purpose of this fiscal note, B&P will assume that the rate reductions created under this proposal will trigger for each tax year from 2024 through 2030. However, B&P acknowledges that it is unlikely that the reductions will trigger in consecutive years. Table 1 shows the current versus proposed top rate of tax.

Table 1: Current versus Proposed
 Top Tax Rate

Tax Year	Current Law	Proposed
2023	5.20%	4.70%
2024	5.10%	4.60%
2025	5.00%	4.50%
2026	4.90%	4.40%
2027	4.80%	4.30%
2028	4.80%	4.20%
2029	4.80%	4.10%
2030	4.80%	4.00%

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 may reduce tax collections by \$806.3M in tax year 2023. Once this proposal fully implements, B&P estimates this provision could reduce tax collections by \$1,107.4M annually, compared to revenues under SB 509 (2014) and SB 153 (2021) with a top rate 4.8%. Table 2 shows the estimated revenue impact by tax year.

Table 2: Estimated
 Impact by Tax Year

Tax Year	GR Impact
2023	(\$806,303,922)
2024	(\$801,363,427)
2025	(\$799,747,178)
2026	(\$795,512,310)
2027	(\$794,662,113)
2028	(\$898,418,865)
2029	(\$1,001,542,383)
2030	(\$1,107,422,254)

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 could reduce TSR and GR by \$338.6M in FY23. Once fully implemented, and annually thereafter, this proposal may reduce TSR and GR by \$1,107.4M, compared to revenues under SB 509 (2014) and SB 153 (2021) with a top rate 4.8%. Table 3 shows the estimated impact by fiscal year.

Table 3: Estimated Impact by Fiscal Year

Fiscal Year	GR Impact
2023	(\$338,647,647)
2024	(\$804,228,914)
2025	(\$800,684,603)
2026	(\$797,968,534)
2027	(\$795,155,227)
2028	(\$838,239,949)
2029	(\$941,730,743)
2030	(\$1,046,011,929)
2031	(\$1,107,422,254)

Oversight notes the average net collected amount of the income tax revenue collected between FY 2012 and FY 2019 periods total \$7,436,426,251. **Oversight** did not use Missouri collection data for FY 2020 and FY 2021 due to the COVID-19 delay in tax filing and collections, making this period outlier from usual collection pattern.

Oversight notes a comparison of the rates that would be realized under the current law compared to the rates that would be realized under the proposed legislation. Oversight assumes, for purpose of this fiscal note, all triggers under the proposal will be met each year, and rate reductions will occur consecutively as shown below.

Tax Year	Top Tax Rate - Current Law	Top Tax Rate - Proposed Law
2023	5.2%	4.7%
2024	5.1%	4.6%
2025	5.0%	4.5%
2026	4.9%	4.4%
2027	4.8%	4.3%
2028	4.8%	4.2%
2029	4.8%	4.1%
2030	4.8%	4.0%

Oversight notes that the final adjustment would affect tax year 2030, therefore, effective FY 2031 would be the final implementation year as shown below:

TY	Current Law	Diff in 1/10th percentages between Current and Proposed language	Proposal	Proportional decline in GR collections (rounded)	Estimated Loss of GR due to the tax changes
2023	5.20%	0.5	4.70%	5% (1/2 year)	\$ 371,836,312.54
2024	5.10%	0.5	4.60%	10%	\$ 743,672,625.09
2025	5.00%	0.5	4.50%	10%	\$ 743,672,625.09
2026	4.90%	0.5	4.40%	10%	\$ 743,672,625.09
2027	4.80%	0.5	4.30%	10%	\$ 743,672,625.09
2028	4.80%	0.6	4.20%	12%	\$ 892,407,150.11
2029	4.80%	0.7	4.10%	14%	\$ 1,041,141,675.12
2030	4.80%	0.8	4.00%	16%	\$ 1,189,876,200.14

Oversight used the average collected amount of \$7,436,426,251 to calculate the approximate general revenue impact throughout the years by multiplying the average collected (FY2012 to FY 2019) amount by the proportional percentage decline. The data above shows that in TY 2030 Missouri will experience .8 tenths deduction when comparing it to the current law. Oversight notes that the deduction would total \$1.18 Billion in loss of general revenue. Therefore, **Oversight** generally agrees with DOR and B&P projected decline in general revenue, and will note the overall impact in the fiscal note.

Section 143.071 – Corporate Income Tax

Officials from the **Department of Revenue (DOR)** assume the proposed legislation would eliminate the Missouri corporate income tax for all tax years beginning on or after January 1, 2023. The corporate rate is currently 4%. FY 2022 net collections were \$711.1M. Since this proposal is effective January 1, 2023 it is assumed only 6 months of collections will be impacted in FY 2023.

	Loss to GR
FY 2023	(\$355,550,000)
FY 2024	(\$711,100,000)
FY 2025	(\$711,100,000)

Per Section 148.720 whenever there is a reduction in the corporate tax rate there shall be a proportional decrease in the financial institutions tax. This proposal would be a 100% reduction in the corporate tax so the financial institutions tax would also have a 100% decrease. The financial institutions tax is currently 4.48% with 98% of it distributed to locals and 2% retained by general revenue. In FY 2022, the state collected \$53,870,066 in tax. Per Section 148.720 the

reduction in the financial institutions tax is reduced in the following year. The loss is estimated to be:

	Loss to General Revenue	Loss to Locals
FY 2023	\$0	\$0
FY 2024	(\$1,077,401)	(\$52,792,665)
FY 2025	(\$1,077,401)	(\$52,792,665)

Therefore the impact from the elimination of the corporate and financial institutions tax is estimated to be:

Total Loss from Corporate and Financial Institutions Tax

	Loss to General Revenue	Loss to Locals
FY 2023	(\$355,550,000)	\$0
FY 2024	(\$712,177,401)	(\$52,792,665)
FY 2025	(\$712,177,401)	(\$52,792,665)

This proposal will no longer require the Department to maintain its 4 FTE that handle the correspondence and manual review of the corporate or financial institutions tax returns. While this proposal eliminates the tax rate for the corporate and financial institutions it does not remove their requirement to file a return so the Department's processing staff will still be necessary to handle the entry of the returns.

Officials from the **Office of Administration (B&P)** assume this provision would eliminate the corporate income tax beginning with tax year 2023. B&P notes that the corporate tax rate was reduced to 4.0% on January 1, 2020.

In FY22, net corporate tax collections were \$711,062,676 at a tax rate of 4.0%.

B&P estimates that eliminating the corporate income tax could reduce GR by \$711,062,676 beginning with tax year 2023. However, because this proposal would take effect January 1, corporations would adjust their declarations payments during FY23. Based on historic remittance patterns, B&P notes that corporate income tax collections are split approximately 50/50 between fiscal years. Table 1 shows the estimate impact on general revenue by fiscal year.

Table 1: Impact to GR from Corporate Rate Reduction

	FY23	FY24	FY25
GR Loss	(\$355,531,338)	(\$711,062,676)	(\$711,062,676)

Financial Institutions Tax

B&P notes that under Section 148.720, RSMo. The financial institutions tax (formerly known as the bank franchise taxes) (Sections 148.030, 148.140, and 148.620, RSMo.) shall be reduced by

a proportional amount to any reduction in the corporate income tax. Such reduction shall occur in the calendar year in which the corporate tax rate is reduced.

Therefore, beginning with tax year 2023, the financial institutions tax rate would be eliminated when the corporate tax rate is reduced by 100% in tax year 2023. B&P notes that the current bank franchise tax rate is 4.48% as of January 1, 2020.

In FY22, financial institutions tax collections were \$53,870,066 at a tax rate of 4.48%.

B&P notes that the financial institutions tax is distributed to GR (2%) and local funds (98%) on an annual basis and that tax payments for tax year 1 are distributed in FY2. For example: tax payments for 2023 will be collected and distributed during FY24. Table 2 shows the estimated impact on state and local funds by fiscal year.

Table 2: State and Local Impact from Brank Franchise Tax Reduction

Funds impact	FY23	FY24	FY25
GR (2%)	\$0	(\$1,077,401)	(\$1,077,401)
Local (98%)	\$0	(\$52,792,665)	(\$52,792,665)

Summary

B&P estimates that this provision will reduce TSR and GR by \$355,531,338 in FY23. Once fully implemented in FY24, this proposal will annually reduce TSR and GR by \$712,140,077. This proposal will also reduce local funds by \$52,792,665 annually once fully implemented. Table 3 shows the impacts by state and local fund by fiscal year.

Table 3: State and Local Impact from Corporate Rate Reduction

	FY23	FY24	FY25
<u>State Impact</u>			
Corporate Tax Rate Reduction	(\$355,531,338)	(\$711,062,676)	(\$711,062,676)
Financial Institutions Tax Rate Reduction	\$0	(\$1,077,401)	(\$1,077,401)
Total GR Loss	(\$355,531,338)	(\$712,140,077)	(\$712,140,077)
<u>Local Impact</u>			
Financial Institutions Tax Rate Reduction	\$0	(\$52,792,665)	(\$52,792,665)

Oversight notes that Missouri top corporate income tax rate was reduced from 6 ¼ % to 4% as of January 1, 2020, [as per Revisor](#). Therefore, the collection data for previous periods, 2019 and prior, was not used for purpose of this fiscal note. The corporate tax collections were as follows:

Corporate Tax Collections	
2021	2020
\$798,110,636	\$463,129,080

Oversight notes the average amount collected in the 2020 and 2021 was \$630,619,858 and the DOR and B&P provides additional amounts collected by the Financial Institutions in Missouri under Section 148.720 RSMo, (formerly known as the Bank Franchise Tax).

Oversight notes the proposal effectively eliminates the corporate tax collections as of TY 2023. Therefore, in FY 2023, Missouri will experience half of the decline. Oversight notes that in FY 2024, and thereafter, the proposal will effectively eliminate the entire amount previously collected.

Lastly, **Oversight** will note the estimated local impact from the reduction in the Financial Institution Tax in the fiscal note.

Officials from the **Missouri Department of Transportation** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for this agency.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

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. The 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 the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the 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 the office can sustain with its core budget. Therefore, the 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.

<u>FISCAL</u> <u>IMPACT – State</u> <u>Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2031)
GENERAL REVENUE				
Revenue Reduction – Section(s) 143.011, 143.021, and 143.131 – Individual Income Tax	Less or More (\$338,647,647)	Less or More (\$804,228,914)	Less or More (\$800,684,603)	Less or More (\$1,107,422,254)
Revenue Reduction – Section 143.071 – Corporate Income Tax	Less or More (\$355,531,338)	Less or More (\$711,062,676)	Less or More (\$711,062,676)	Less or More (\$711,062,676)
Revenue Reduction – Section 148.720 Financial Institution Tax	\$0	<u>Less or More</u> <u>(\$1,077,041)</u>	<u>Less or More</u> <u>(\$1,077,041)</u>	<u>Less or More</u> <u>(\$1,077,041)</u>
Total Estimated Net Effect on General Revenue	<u>(\$694,178,985)</u>	<u>(\$1,516,368,631)</u>	<u>(\$1,512,824,320)</u>	<u>(\$1,819,561,971)</u>

<u>FISCAL IMPACT</u> <u>– Local</u> <u>Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2031)
LOCAL POLITICAL SUBDIVISION				
Revenue Reduction – Section 148.720 Financial Institution Tax	<u>\$0</u>	<u>(\$52,792,665)</u>	<u>(\$52,792,665)</u>	<u>(\$52,792,665)</u>
TOTAL ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISION	<u>\$0</u>	<u>(\$52,792,665)</u>	<u>(\$52,792,665)</u>	<u>(\$52,792,665)</u>

FISCAL IMPACT – Small Business

Small businesses will pay less in state taxes with this proposal.

FISCAL DESCRIPTION

INDIVIDUAL INCOME TAXES

Current law provides for reductions to the top rate of income tax to an eventual rate of 4.8% over a period of years, contingent on meeting certain net general revenue collection triggers. This act repeals all such scheduled reductions and reduces the top rate of income tax to 4.7% beginning in the 2023 calendar year. Beginning with the 2024 calendar year, the act provides for an additional seven reductions over a period of years. Each reduction shall be by 0.1% and shall only be effective if the amount of net general revenue collected in the previous fiscal year exceeds the highest amount of net general revenue collected in any of the three fiscal years prior to such fiscal year by at least \$150 million. (Section 143.011)

Current law exempts the first \$100 of a taxpayer's income from taxation. For all tax years beginning on or after January 1, 2023, this act exempts the first \$1,000 of income from taxation. (Section 144.021)

Current law sets the Missouri standard deduction equal to the allowable federal standard deduction. For all tax years beginning on or after January 1, 2023, this act sets the Missouri standard deduction equal to the allowable federal standard deduction plus \$2,000 for every filing

status except married filing combined, and plus \$4,000 for the filing status of married filing combined. (Section 143.131)

CORPORATE INCOME TAXES

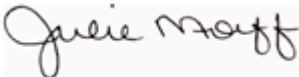
Current law imposes a tax of 4% on corporate income. For all tax years beginning on or after January 1, 2023, this act provides that there shall be no tax on corporate income.

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

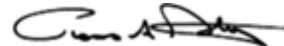
This act contains an emergency clause.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration – Budget & Planning
Missouri Department of Transportation
Office of the Secretary of State
Joint Committee on Administrative Rules
City of O’Fallon
City of Springfield
City of Claycomo



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