

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5973S.01I  
 Bill No.: SB 5  
 Subject: Taxation and Revenue - Income; Corporations  
 Type: Original  
 Date: September 18, 2022

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

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2029)
General Revenue Fund *	(\$230,011,085)	(\$576,579,468)	(\$624,086,799)	Could exceed (\$628,322,692)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$230,011,085)</b>	<b>(\$576,579,468)</b>	<b>(\$624,086,799)</b>	<b>Could exceed (\$628,322,692)</b>

\*Oversight notes the state individual income tax rate (5.3% in CY 2022) is to be reduced in 0.10% annual increments (if certain triggers are met) until it reaches 4.8%. This proposal would change the tax rate to 4.8% starting January 1, 2023. This proposal also allows an additional four 0.1% GR-growth-dependent reductions until it reaches 4.40%. The impact for FY 2023 is smaller because it reflects a partial year. The fiscal note reflects the assumptions that the current triggers would have been met each year (would have reduced the rate to 4.8% regardless of this bill) and that the four new triggers will be met each year, occurring in CY 2024 – CY 2027.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2029)
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2029)
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2029)
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2029)
<b>Local Government*</b>	<b>(\$6,599,083)</b>	<b>(\$13,198,166)</b>	<b>(\$13,198,166)</b>	<b>Could exceed (\$13,198,166)</b>

\*Oversight notes 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. Oversight further 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.

## FISCAL ANALYSIS

### ASSUMPTION

**Oversight** notes that this proposal contains an emergency clause (Section C) that would make this proposal effective upon signing by the Governor for the designated statutory sections. For the simplicity of the fiscal note, we will assume these provisions would go into effect on October 1, 2022 unless noted differently.

### **Sections 143.011 – 143.071 Individual Income Tax Rate**

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 101<sup>st</sup> General Assembly regular session SB 153 & SB 97 were 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 4.8% 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 four 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 4.4%.

Currently when calculating Missouri taxable income a person can deduct a portion of their federal income tax paid. The deduction in section 143.171, has a formula for allowing a certain percentage of the tax to be deducted based on your income level. This proposal stops the formula and eliminates the deduction.

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	(\$441,506,334.46)
2024	(\$445,012,366.06)
2025	(\$447,524,468.88)
2026	(\$447,551,557.04)
2027	(\$452,087,998.81)
2028	(\$450,303,342.09)

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

Fiscal Year	Loss to GR
2023	(\$185,432,660.47)
2024	(\$442,978,867.73)
2025	(\$446,067,449.24)
2026	(\$447,535,845.90)
2027	(\$449,456,862.58)
2028	(\$451,338,442.99)
2029	(\$450,303,342.09)

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

**Oversight** notes that DOR assumes this proposal will require programming changes estimated to cost \$10,000. **Oversight** assumes the Department of Revenue 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.

Officials from the **Office of Administration - Budget and Planning (B&P)** note Section 143.011 would reduce the top tax rate to 4.8% beginning with tax year 2023. This provision would allow four additional GR-growth-dependent 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 143.171 would eliminate the federal income tax deduction for individual income.

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 2027. 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%	4.80%
2024	5.10%	4.70%
2025	5.00%	4.60%
2026	4.90%	4.50%
2027	4.80%	4.40%

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 \$438.3M in tax year 2023. Once this proposal fully implements, B&P estimates this provision could reduce tax collections by \$448.2M 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	(\$438,295,642)
2024	(\$442,038,836)
2025	(\$444,669,685)
2026	(\$443,455,223)
2027	(\$448,180,133)

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 \$184.1M in

FY23. Once fully implemented, and annually thereafter, this proposal may reduce TSR and GR by \$448.2M, 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	(\$184,084,170)
2024	(\$439,867,783)
2025	(\$443,143,793)
2026	(\$444,159,611)
2027	(\$445,439,685)
2028	(\$448,180,133)

**Section 143.171 – Corporate Income Taxes**

Officials from the **Department of Revenue (DOR)** note the proposed legislation would reduce the Missouri corporate income tax for all tax years beginning on or after January 1, 2023 to 3.5%. The corporate tax 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.

Additionally, this proposal allows for an additional one-half of one percent reduction of the corporate tax rate to 3% if the amount of net general revenue collected, as defined in section 143.011, 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. This will mean that ultimately the rate will be 3%. For purposes of the fiscal note only, it is assumed the reduction will occur in FY 2024.

	Corporate Tax Rate	Loss to General Revenue
FY 2023	3.5%	(\$44,443,750)
FY 2024	3.0%	(\$133,331,250 )
FY 2025	3.0%	(\$177,750,000)

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. The financial institutions tax is currently 4.48% with 98% of it distributed to locals and 2% retained by general revenue. Per Section 148.720 the reduction in the financial institutions tax is reduced in the following year. The FY 22 collections were \$53,870,066. Therefore, the financial institutions tax would be 3.92% in FY 2023 and 3.36% starting in FY 2024. The loss is estimated to be:

	Tax Rate	Loss to General Revenue	Loss to Locals
FY 2023	3.92%	(\$134,675)	(\$6,599,083)
FY 2024	3.36%	(\$269,350)	(\$13,198,166)
FY 2025	3.36%	(\$269,350)	(\$13,198,166)

Therefore, the impact from the reduction 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	(\$44,578,425)	(\$6,599,083)
FY 2024	(\$133,600,600)	(\$13,198,166)
FY 2025	(\$178,019,350)	(\$13,198,166)

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

**Oversight** notes that DOR assumes this proposal will require programming changes estimated to cost \$10,000. **Oversight** assumes the Department of Revenue 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.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this provision would reduce the corporate income tax rate to 3.5% for tax year 2023. This provision would allow for one GR growth dependent additional 0.5% reduction in the rate, beginning with tax year 2024. The additional reduction shall only occur when net general revenue grows by at least \$150 million above the largest amount collected in the previous three fiscal years.

In FY22, net corporate tax collections were \$711,062,676 at a tax rate of 4.0%. For the purpose of this fiscal note, B&P will assume that the corporate tax rate will be 3.5% for tax year 2023 and 3.0% for tax year 2024.

B&P estimates that reducing the corporate income tax could reduce GR by \$88.9M beginning with tax year 2023. Once fully implemented, B&P estimates this provision could reduce GR by \$177.8M annually.

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	(\$44,441,417)	(\$133,324,252)	(\$177,765,669)

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. B&P notes that the financial institution tax is paid annually in the fiscal year following the end of a calendar year.

In FY22, financial institutions tax collections were \$53,870,066 at a tax rate of 4.48%. B&P estimates that the financial institution tax rate will be reduced to 3.92% for tax year 2023 and then 3.36% for tax year 2024.

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 Bank Franchise Tax Reduction

Funds impact	FY23	FY24	FY25
GR (2%)	\$0	(\$134,675)	(\$269,350)
Local (98%)	\$0	(\$6,599,083)	(\$13,198,166)

Summary

B&P estimates that this provision may reduce TSR and GR by \$44.4M in FY23. Once fully implemented, this proposal could annually reduce TSR and GR by \$178.0M. This proposal could also reduce local funds by \$13.2M 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	(\$44,441,417)	(\$133,324,252)	(\$177,765,669)
Financial Institutions Tax Rate Reduction	\$0	(\$134,675)	(\$269,350)
Total GR Loss	(\$44,441,417)	(\$133,458,927)	(\$178,035,019)
<u>Local Impact</u>			
Financial Institutions Tax Rate Reduction	\$0	(\$6,599,083)	(\$13,198,166)

**Oversight** notes both DOR and B&P’s estimates includes data from DOR and B&P’s internal Income Tax Model. **Oversight** does not currently have the resources and/or access to state tax data to produce a thorough independent revenue estimate and is unable to verify the revenue estimates provided by B&P and DOR. Therefore, for the purpose of this fiscal note, Oversight will note DOR’s estimated impact for this proposal.

<u>FISCAL IMPACT</u> <u>– State</u> <u>Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2029)
<b>GENERAL REVENUE FUND</b>				
<u>Revenue Loss -</u> §143.011 - §143.071 Changes to Individual Income Tax rates, deductions, and exemptions p. 3-6	(\$185,432,660)	(\$442,978,868)	(\$446,067,449)	(\$450,303,342)
<u>Revenue Loss -</u> §143.171 – Changes to Corporate Tax and Financial Institutions Tax p.6-9	(\$44,578,425)	(\$133,600,600)	(\$178,019,350)	<u>Could exceed</u> (\$178,019,350)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b>(\$230,011,085)</b>	<b>(\$576,579,468)</b>	<b>(\$624,086,799)</b>	<b><u>Could exceed</u></b> <b>(\$628,322,692)</b>

<u>FISCAL IMPACT</u> <u>– Local</u> <u>Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2029)
<b>LOCAL POLITICAL SUBDIVISIONS</b>				
<u>Revenue Loss -</u> §143.171 – Decrease of financial institutions tax p.6-9	<u>(\$6,599,083)</u>	<u>(\$13,198,166)</u>	<u>(\$13,198,166)</u>	<u>Could exceed</u> <u>(\$13,198,166)</u>
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>(\$6,599,083)</u></b>	<b><u>(\$13,198,166)</u></b>	<b><u>(\$13,198,166)</u></b>	<b><u>Could exceed</u></b> <b><u>(\$13,198,166)</u></b>

FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that is obligated to pay Income Tax or Bank Franchise Tax, as such small business would pay a reduced amount of such tax(es).

FISCAL DESCRIPTION

PERSONAL INCOME TAXES

Beginning with the 2023 calendar year, this act provides that the top rate of income tax shall be 4.8%. Additionally, beginning with the 2024 calendar year, this act provides that the top rate of income tax may be further reduced by 0.4% over a period of years, with each 0.1% reduction becoming 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 authorizes a taxpayer to deduct a percentage of the taxpayer's federal income tax liability from the taxpayer's Missouri adjusted gross income. This act disallows such deduction

beginning with the 2023 tax year. (Section 143.171)

#### CORPORATE INCOME TAXES

Current law imposes an income tax on the taxable income of corporations at a rate of 4%. For all tax years beginning on or after January 1, 2023, this act reduces the tax rate to 3.5%.

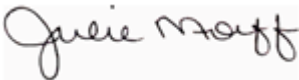
Additionally, beginning with the 2024 calendar year, this act provides that the corporate income tax rate may be further reduced by 0.5% if the amount of net general revenue collected in the previous fiscal year exceeds the highest amount of net general revenue collected in any of the three fiscal years prior to such fiscal year by at least \$150 million. (Section 143.071)

This act contains an emergency clause.

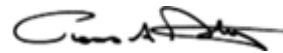
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

#### SOURCES OF INFORMATION

Office of Administration - Budget and Planning  
Department of Revenue



Julie Morff  
Director  
September 18, 2022



Ross Strobe  
Assistant Director  
September 18, 2022