

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5979S.01I
Bill No.: SB 7
Subject: Taxation and Revenue - Income
Type: Original
Date: September 18, 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	Fully Implemented (FY 2032)
General Revenue Fund*	(\$227,890,510)	(\$542,737,042)	(\$544,066,919)	(\$978,819,666)
Total Estimated Net Effect on General Revenue	(\$227,890,510)	(\$542,737,042)	(\$544,066,919)	(\$978,819,666)

*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% under current law. This proposal would change the tax rate to 4.7% starting January 1, 2023 and allow eight additional reductions in 0.1% increments (dependent on GR growth) until it reaches 3.9%. The impact for FY 2023 is smaller because it reflects a partial year. The “Fully Implemented” fiscal impact of the bill (8 additional rate reductions) may not occur until well beyond FY 2032 (depending upon continued General Revenue collections); however for simplicity, the fiscal note reflects the fully implemented fiscal impact in FY 2032 (earliest possible).

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2032)
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 2032)
Total Estimated Net Effect on <u>All</u> 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 2032)
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 2032)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 143.011 – Individual Income Tax

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would reduce the top tax rate to 4.7% beginning with tax year 2023. This proposal would allow eight 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.

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 each 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 2031. 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%
2031	4.80%	3.90%

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 \$542.6M in tax year 2023. Once this proposal fully implements, B&P estimates this provision could reduce tax collections by \$978.8M 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	(\$542,596,451)
2024	(\$542,931,192)
2025	(\$545,635,305)
2026	(\$546,372,045)
2027	(\$547,188,422)
2028	(\$654,382,843)
2029	(\$762,039,226)
2030	(\$869,778,144)
2031	(\$978,819,666)

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 \$227.9M in FY23. Once fully implemented, and annually thereafter, this proposal may reduce TSR and GR by \$978.8M, 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	(\$227,890,510)
2024	(\$542,737,042)
2025	(\$544,066,919)
2026	(\$545,944,736)
2027	(\$546,714,923)
2028	(\$592,210,079)
2029	(\$699,598,524)
2030	(\$807,289,572)
2031	(\$915,575,583)
2032	(\$978,819,666)

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.

Additionally, starting in calendar year 2024, it will allow eight 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 they 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 3.9%

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	(\$541,045,720.27)
2024	(\$541,318,547.40)
2025	(\$544,004,645.32)
2026	(\$544,737,006.69)
2027	(\$545,545,028.07)
2028	(\$653,774,406.10)
2029	(\$761,091,471.18)
2030	(\$868,490,430.56)
2031	(\$977,175,862.36)

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

Fiscal Year	Loss to GR
2023	(\$227,239,202.51)
2024	(\$541,160,307.67)
2025	(\$542,446,708.53)
2026	(\$544,312,237.09)
2027	(\$545,076,375.67)
2028	(\$591,001,366.84)
2029	(\$698,847,573.44)
2030	(\$806,199,034.12)
2031	(\$914,138,311.91)
2032	(\$977,175,862.36)

The Department notes these provisions will require changes to DOR'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.

Oversight notes both DOR and B&P's estimates includes data from DOR and B&P's internal Income Tax Model. Additionally, **Oversight** notes both DOR and B&P's estimates of revenue impact assume all scheduled rate reductions created by SB 509 (2014) and SB 153 (2021) will occur.

Oversight notes that it 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 B&P's estimated impact for this proposal.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2032)
GENERAL REVENUE FUND				
<u>Revenue Reduction - §143.011 – Reduction of top Individual Income Tax Rate p. 3-6</u>	<u>(\$227,890,510)</u>	<u>(\$542,737,042)</u>	<u>(\$544,066,919)</u>	<u>(\$978,819,666)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$227,890,510)</u>	<u>(\$542,737,042)</u>	<u>(\$544,066,919)</u>	<u>(\$978,819,666)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2032)
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

Certain small businesses may pay less in state income tax as a result of this proposal.

FISCAL DESCRIPTION

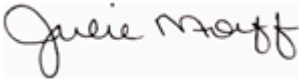
Beginning with the 2023 calendar year, this act provides that the top rate of income tax shall be 4.7%. Additionally, beginning with the 2024 calendar year, this act provides that the top rate of income tax may be further reduced by 0.8% over a period of years, with each 0.1% reduction becoming effective 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.

This act contains a delayed effective date of January 1, 2023.

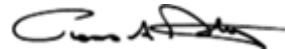
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration - Budget and Planning



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September 18, 2022



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September 18, 2022