COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5166-03
Bill No.: SB 733
Subject: Taxation and Revenue - Income
Type: Original
Date: February 12, 2014

Bill Summary: This proposal would reduce the rate of tax on personal and corporate income and increase the cap on the federal income tax liability deduction for individuals and couples.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	$0	($297,500,852)	($503,872,453)
Total Estimated Net Effect on General Revenue Fund	**$0**	**($297,500,852)**	**($503,872,453)**

* Fully implemented revenue reduction in fifth year would be $970,231,000.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	0 FTE	4 FTE	4 FTE
Total Estimated Net Effect on FTE	**0 FTE**	**4 FTE**	**4 FTE**

☒ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Local Government	**$0**	**$0**	**$0**

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FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** assume 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 Secretary of State's Office for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve 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.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would not result in any additional costs or savings to their organization.

BAP officials noted this proposal would make several changes to income taxation. The aggregate impact when all the changes interact together may be different from the sum of the changes as outlined below.

Individual Income Tax Rates

BAP officials assume this proposal would reduce each of the progressive income tax rates for individuals by 1% over a five year period, except for the final period, when the top marginal rate would remain at 5.2% even though the other marginal rates would be reduced. Based on tax year 2011 data, BAP officials estimated that Total State Revenues would be reduced as shown in the table below.

Year	Rate Reduction	Impact (millions)
2015	0.20%	($183.0)
2016	0.40%	($365.9)
2017	0.60%	($548.8)
2018	0.80%	($731.8)
2019	1.00%	($777.2)

ASSUMPTION (continued)

BAP officials assume that Total State Revenues would be reduced by $914.7 million if the intent of the bill is reduce the top rate to 5% in 2019.

BAP officials assume taxpayers would adjust withholdings and declarations beginning in January 2015, so a portion of these revenue reductions would move forward into Fiscal Year 2015. BAP officials estimates the FY 15 revenue reduction could be $65.9 million.

Corporate Income Tax Rates

BAP officials noted this proposal would reduce the corporate income tax rate from 6.25% to 5.25% over five years. Based on FY 2013 net corporate income tax revenues, BAP officials estimated the impacts to Total State Revenues as shown in the table below.

Year	Rate	Collections (millions)	Loss
2013	6.25	$360.8	$0.0
2015	6.05	$349.3	($11.5)
2016	5.85	$337.7	($23.1)
2017	5.65	$326.2	($34.6)
2018	5.45	$314.6	($46.2)
2019	5.25	$303.1	($57.7)

BAP officials assume corporate taxpayers would adjust declarations beginning in December 2014, so a portion of these estimated revenue reductions would move forward into FY 2015. BAP officials estimated the FY2015 impact could be a revenue reduction of $3.5 million.

Increased Deduction for Federal Taxes Paid

BAP officials also noted this proposal would increase the deduction for federal taxes paid from $5,000 to $7,500 per taxpayer, beginning with 2015. Based on Tax Year 2011 data, BAP officials provided a preliminary estimate of the impact to Total State Revenues of a revenue reduction of $92.8 million, but additional analysis may be needed to refine this estimate.

BAP officials assume taxpayers would adjust withholdings and declarations beginning in January 2015, so a portion of these estimated revenue reductions would move forward into FY 2015. BAP officials estimated the FY2015 impact could be a revenue reduction of $33.4 million.

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ASSUMPTION (continued)

Finally, BAP officials assume this proposal would impact the calculation under Article X, Section 18(e).

Officials from the **Department of Revenue (DOR)** assume this proposal would reduce individual income and corporate tax rates by 1/5 of one percent each year for five years. In addition, the cap on the federal income tax liability deduction for individuals would be increased to $7,500 for single filers and $15,000 for joint filers.

Individual tax

Fiscal impact

DOR officials assume the reduction in individual income tax rates, corporate tax rates, and an increased cap on the federal income tax liability deduction for individuals would create a negative impact of up to $916.2 million in 2019.

2015	$285.2 million
2016	$476.6 million
2017	$667.9 million
2018	$859.3 million
2019	$916.2 million

DOR officials noted that because the effective date of this legislation is at the beginning of 2015, the impact on revenue would vary in FY 2015, and stated the Office of Administration - Division of Budget and Planning may have more precise estimates of the annual impact to revenue.

Administrative impact

DOR officials assume Personal Tax would require form changes and ITSD programming support. Additionally, DOR officials assume Personal Tax would require two additional Revenue Processing Technicians I for error correction and correspondence.

DOR officials assume Collections & Tax Assistance (CATA) would require two additional Tax Collection Technicians I for contacts to the delinquent and non-delinquent tax call centers and one (1) Revenue Processing Technician I for contacts to the tax assistance offices. Each technician would require CARES equipment and license.

ASSUMPTION (continued)

DOR officials assume Withholding Tax would require updating of forms and the online withholding calculator, and withholding tax forms each year.

Corporate tax

DOR officials noted this proposal would reduce corporate income tax by one-fifth of one percent each year for five years. Beginning January 1, 2019, the legislation would impose a tax on corporations at a rate of five and one-fourth percent of Missouri taxable income.

DOR officials reported that for 2011, 18,155 corporate taxpayers reported total taxable income of $5.78 billion. Based on these figures DOR officials estimated the following reduction of corporate income tax:

2015	$11.6 million
2016	$23.1 million
2017	$34.7million
2018	$46.3 million
2019	$57.8 million

Administrative impact

DOR officials assume Corporate Tax would require form and programming changes. In addition, Corporate Tax would require two additional Revenue Processing Technicians I for error correction and correspondence. Each technician would require CARES equipment and license.

The DOR estimate of cost to implement this proposal included seven additional employees; with benefits, equipment, and expense, the DOR cost estimate totaled $282,056 for FY 2015, $289,483 for FY 2016, and $292,496 for FY 2017.

Oversight assumes the DOR estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment could be reduced by roughly $6,000 per new employee.

ASSUMPTION (continued)

Oversight assumes DOR could implement this proposal with four additional employees and has, for fiscal note purposes only, changed the starting salary for the additional employees to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

Oversight assumes the additional DOR employees would be required beginning January 2016 (FY 2016) when tax returns for 2015 would be filed and will include DOR costs for six months in FY 2016.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of $32,105 based on 1,176 hours of programming to make changes to DOR systems.

Oversight assumes OA - ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA - ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA - ITSD (DOR) could request funding through the appropriation process.

Officials from the **University of Missouri - Economic Policy and Analysis Research Center (EPARC)** assume this proposal would, if enacted, reduce individual income tax rates and the corporate income tax rate over the course of five years. Also, this proposal would increase the cap on the federal income tax deduction for individuals.

EPARC officials provided a simulation of the individual income tax changes in this proposal starting with existing provisions and the most recent individual income tax data from 2012. The following table illustrates the results of the EPARC simulations for individual income tax changes in this proposal.

ASSUMPTION (continued)

Year	Net Tax Due	Estimated Revenue Reduction
Baseline	$5,109,439,000	
2015	$4,824,780,000	$284,659,000
2016	$4,631,083,000	$478,356,000
2017	$4,438,269,000	$671,170,000
2018	$4,246,228,000	$863,211,000
2019	$4,202,878,000	$906,561,000

EPARC officials provided a simulation of the corporate income tax changes in this proposal starting with existing provisions and the most recent corporate income tax data from 2011. The following table illustrates the results of the EPARC simulations for corporate income tax changes in this proposal.

Year	Aggregate Tax Liability	Estimated Revenue Reduction
Baseline	$397,939,000	
2015	$385,205,000	$12,734,000
2016	$372,471,000	$25,468,000
2017	$359,737,000	$38,202,000
2018	$347,003,000	$50,936,000
2019	$334,269,000	$63,670,000

ASSUMPTION (continued)

Oversight will use the EPARC estimates of revenue reductions for this proposal. Oversight notes the changes in this proposal would be effective January 1, 2015 and assumes income tax returns for 2015 would be filed beginning January, 2016 (FY 2016). Oversight is aware that taxpayers may choose to reduce their estimated tax payments or their tax withholdings in anticipation of a tax cut; however, for fiscal note purposes, Oversight will indicate the full revenue reduction in the year when the tax returns would be filed for the proposal.

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization.

FISCAL IMPACT - State Government	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE FUND			
Cost - DOR			
Sections 143.011, 143.071, and 143.171			
Salaries	$0	($47,280)	($95,506)
Benefits	$0	($24,118)	($48,713)
Equipment and Expense	$0	($36,454)	($4,234)
Total	$0	($107,852)	($148,453)
FTE change - DOR	0 FTE	4 FTE	4 FTE
Revenue reduction - DOR			
Corporate income tax changes			
Section 143.071 *	$0	($12,734,000)	($25,468,000)
* Fully implemented revenue reduction in fifth year would be $63,670,000.			
Revenue reduction - DOR			
Individual income tax changes			
Sections 143.011 and 143.171 *	$0	($284,659,000)	($478,356,000)
* Fully implemented revenue reduction in fifth year would be $906,561,000.			
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**($297,500,852)**	**($503,872,453)**
* Fully implemented revenue reduction in fifth year would be $970,231,000.			

FISCAL IMPACT - State Government (Continued)	FY 2015 (10 Mo.)	FY 2016	FY 2017
Estimated Net FTE Impact on General Revenue Fund	0 FTE	4 FTE	4 FTE

FISCAL IMPACT - Local Government	FY 2015 (10 Mo.)	FY 2016	FY 2017
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal would reduce state income taxes on incorporated small businesses and on their owners.

FISCAL DESCRIPTION

This proposal would reduce the rate of tax on personal and corporate income and increase the cap on the federal income tax liability deduction.

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

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SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
Office of Administration
    Division of Budget and Planning
Department of Revenue
University of Missouri
    Economic Policy and Analysis Research Center

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