

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5045-05
Bill No.: SCS for SB 575
Subject: Saint Louis City; Taxation and Revenue - Income
Type: Original
Date: March 1, 2016

Bill Summary: This proposal phases out the St. Louis City earnings tax.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | | |
|--|------------|------------------------|--------------------------|-----------------------------|
| FUND AFFECTED | FY 2017 | FY 2018 | FY 2019 | Fully Implemented (FY 2027) |
| General Revenue | \$0 | Up to \$960,000 | Up to \$1,920,000 | Up to \$9,600,000 |
| Total Estimated Net Effect on General Revenue | \$0 | Up to \$960,000 | Up to \$1,920,000 | Up to \$9,600,000 |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | | |
|---|------------|------------|------------|-----------------------------|
| FUND AFFECTED | FY 2017 | FY 2018 | FY 2019 | Fully Implemented (FY 2027) |
| | | | | |
| | | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 | \$0 | \$0 | \$0 |

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 7 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | | |
|---|----------------|----------------|----------------|------------------------------------|
| FUND AFFECTED | FY 2017 | FY 2018 | FY 2019 | Fully Implemented (FY 2027) |
| | | | | |
| | | | | |
| 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 2017 | FY 2018 | FY 2019 | Fully Implemented (FY 2027) |
| | | | | |
| | | | | |
| Total Estimated Net Effect on FTE | 0 | 0 | 0 | 0 |

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | | |
|--|----------------------|-----------------------|-----------------------|------------------------------------|
| FUND AFFECTED | FY 2017 | FY 2018 | FY 2019 | Fully Implemented (FY 2027) |
| Local Government | (\$8,000,000) | (\$24,000,000) | (\$40,000,000) | (\$160,000,000) |

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration's Division of Budget and Planning** assume this proposal would not impact total state revenues. This proposal will not impact the calculation under Article X, Section 18 (e). This proposal would phase-out the earnings tax in St. Louis City over a ten year period. Beginning in Tax Year 2017, the earnings tax would be reduced from 1.0% to 0.9%, with a 0.1% reduction every year thereafter. The earnings tax would be completely phased out with Tax Year 2026. Using the data provided by St. Louis City, Budget and Planning determined that the average earnings and payroll tax collections from 2005-2014 was \$191.8 million. The following is the revenue loss to St. Louis City from the phase-out of the earnings tax:

| Tax Year | Tax Rate | Revenue Loss |
|----------|----------|---------------|
| 2017 | 0.9% | \$ 19,184,100 |
| 2018 | 0.8% | \$ 38,368,200 |
| 2019 | 0.7% | \$ 57,552,300 |
| 2020 | 0.6% | \$ 76,736,400 |
| 2021 | 0.5% | \$ 95,920,500 |
| 2022 | 0.4% | \$115,104,600 |
| 2023 | 0.3% | \$134,288,700 |
| 2024 | 0.2% | \$153,472,800 |
| 2025 | 0.1% | \$172,656,900 |
| 2026 | 0.0% | \$191,841,000 |

Officials at the **City of St. Louis** assume the Earnings Tax is the City's single largest source of revenue amounting to a third of the general fund budget. Total receipts in the previous fiscal year exceeded \$160 million. In November 2010, voters of the State of Missouri passed a state proposition requiring that for the Earnings Tax to continue in the City, it would need approval by local referendum every five years. If not successfully passed, the tax would be phased out over a ten year period. City voters approved the first of these retention votes in April 2011 with an 88% approval rate. A second referendum as called for in the existing statute is scheduled for April 5, 2016. The proposed legislation would negate the provisions for local retention votes as approved by state voters and disregard the local vote of City voters in the upcoming earnings tax election. A loss of revenue of this magnitude would be a devastating blow to the City's credit and fiscal condition and seriously impair the City's ability to provide basic City services. (for order of magnitude see illustration below)

Earnings tax receipts are:

More than the total FY15 general fund costs of the Police Department @ \$152.2 million

ASSUMPTION (continued)

Or about the equivalent of the costs of these services:

| | |
|---|------------------------|
| Fire Department - | \$63.8 million |
| Corrections & Juvenile Detention - | \$56.3 million |
| Forestry Div. trimming / weed & debris - | \$ 7.1 million |
| Park Maintenance - | \$ 7.6 million |
| Street Maintenance & Repair - | \$ 6.0 million |
| Street and Alley Lighting - | \$ 5.8 million |
| Equipment service vehicle maint./repair - | <u>\$ 15.0 million</u> |
| Total Cost of Services - | \$161.6 million |

Officials at the **City of Kansas City** assume a minimal amount of revenue would be experienced by this legislation because there is a tiny number of Kansas City taxpayers who do occasional work in the City of St. Louis and receive a credit on their Kansas City earnings tax obligation for St. Louis earnings tax they pay. There would no longer be a credit since they no longer pay the St. Louis earnings tax. Taxpayers will see no increase in their local earnings tax obligations, but the City of Kansas City would not experience the loss of revenue because of the credit currently given.

Oversight will utilize the City of St. Louis' estimate of \$160 million in earnings tax. Oversight will assume earnings tax withholdings will be adjusted accordingly, and reflect a loss of earnings tax revenue to the City of St. Louis, starting in FY 2017 as follows:

| | 1st 6 months (July 1 - Dec. 31) | 2nd 6 months (Jan 1 - June 30) | FY Total to St. Louis | Calendar Year Total | State Impact (delayed 1 year) |
|--------|------------------------------------|-----------------------------------|--------------------------|------------------------|----------------------------------|
| FY '17 | \$0 | (\$8,000,000) | (\$8,000,000) | | |
| FY '18 | (\$8,000,000) | (\$16,000,000) | (\$24,000,000) | (\$16,000,000) | \$960,000 |
| FY '19 | (\$16,000,000) | (\$24,000,000) | (\$40,000,000) | (\$32,000,000) | \$1,920,000 |
| FY '20 | (\$24,000,000) | (\$32,000,000) | (\$56,000,000) | (\$48,000,000) | \$2,880,000 |
| FY '21 | (\$32,000,000) | (\$40,000,000) | (\$72,000,000) | (\$64,000,000) | \$3,840,000 |
| FY '22 | (\$40,000,000) | (\$48,000,000) | (\$88,000,000) | (\$80,000,000) | \$4,800,000 |
| FY '23 | (\$48,000,000) | (\$56,000,000) | (\$104,000,000) | (\$96,000,000) | \$5,760,000 |
| FY '24 | (\$56,000,000) | (\$64,000,000) | (\$120,000,000) | (\$112,000,000) | \$6,720,000 |
| FY '25 | (\$64,000,000) | (\$72,000,000) | (\$136,000,000) | (\$128,000,000) | \$7,680,000 |
| FY '26 | (\$72,000,000) | (\$80,000,000) | (\$152,000,000) | (\$144,000,000) | \$8,640,000 |
| FY '27 | (\$80,000,000) | (\$80,000,000) | (\$160,000,000) | (\$160,000,000) | \$9,600,000 |
| | | | | | |

Oversight will further assume that earnings taxes paid are used as a deduction on tax returns submitted to the state. Therefore, Oversight will assume that a reduction in earnings taxes paid

ASSUMPTION (continued)

to the City of St. Louis would result in a reduction in itemized deductions which would, in turn, result in additional Missouri Income taxes paid (6 percent income tax rate used in table above). Oversight notes that not all persons currently paying earnings taxes would itemize deductions on their tax returns; therefore, Oversight will reflect additional tax collections to the state of "Up to" the amounts indicated above.

Officials at the **Office of the Secretary of State**, the **Department of Revenue** and the **State Tax Commission** each assume no fiscal impact to their respective agencies from this proposal.

| <u>FISCAL IMPACT -</u> <u>State Government</u> | FY 2017 (10 Mo.) | FY 2018 | FY 2019 | Fully Implemented (FY 2027) |
|--|---------------------|--|--|--|
| GENERAL REVENUE | | | | |
| <u>Revenue - DOR -</u> reduction in earnings taxes would increase state tax collections | <u>\$0</u> | <u>Up to</u> <u>\$960,000</u> | <u>Up to</u> <u>\$1,920,000</u> | <u>Up to</u> <u>\$9,600,000</u> |
| ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND | <u>\$0</u> | <u>Up to</u> <u>\$960,000</u> | <u>Up to</u> <u>\$1,920,000</u> | <u>Up to</u> <u>\$9,600,000</u> |

| <u>FISCAL IMPACT - Local Government</u> | FY 2017 (10 Mo.) | FY 2018 | FY 2019 | Fully Implemented (FY 2027) |
|--|-----------------------------|------------------------------|------------------------------|-----------------------------------|
| CITY OF ST. LOUIS FUNDS | | | | |
| <u>Loss - of revenue by phasing out the Earnings Tax</u> | <u>(\$8,000,000)</u> | <u>(\$24,000,000)</u> | <u>(\$40,000,000)</u> | <u>(\$160,000,000)</u> |
| ESTIMATED NET EFFECT ON CITY OF ST. LOUIS FUNDS | <u>(\$8,000,000)</u> | <u>(\$24,000,000)</u> | <u>(\$40,000,000)</u> | <u>(\$160,000,000)</u> |

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

Under this act, the St. Louis city earnings tax will be phased out over a period of 10 years. Starting January 1, 2017, the earnings tax will be reduced by 1/10th per year until the earnings tax in St. Louis is eliminated.

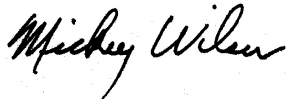
This act provides that the state of Missouri shall not be liable for refunding any earnings taxes collected by a city.

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
Office of Administration
 Budget and Planning Division
State Tax Commission
Department of Revenue
City of St. Louis
City of Kansas City



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March 1, 2016

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March 1, 2016