

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0856-04
Bill No.: SJR 12
Subject: Taxation and Revenue - Income; Taxation and Revenue - General; Constitutional Amendment
Type: Original
Date: February 20, 2017

Bill Summary: This proposal would place a cap on annual appropriations and would reduce income tax rates based on revenue growth.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	\$0 or (Greater than \$7,800,000)	\$0	\$0 or (\$46,075,000)
Total Estimated Net Effect on General Revenue	\$0 or (Greater than \$7,800,000)	\$0	\$0 or (\$46,075,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on <u>Other</u> 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 2018	FY 2019	FY 2020
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on FTE	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 2018	FY 2019	FY 2020
Local Government*	\$0	\$0	\$0

*Net of election costs and state reimbursements.

FISCAL ANALYSIS

ASSUMPTION

Office of the **Secretary of State (SOS)** state that each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment, and bills that would refer to a vote of the people the statutory issue in the legislation may be considered by the General Assembly.

Unless a special election is called for the purpose, joint resolutions proposing a constitutional amendment are submitted to a vote of the people at the next general election. The Missouri Constitution authorizes the Governor to order a special election for constitutional amendments referred to the people. If a special election is called to submit a joint resolution to a vote of the people, state law requires the state to pay the costs. The cost of the special election has been estimated to be \$7.8 million based on the cost of the 2016 Presidential Preference Primary.

The SOS is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed the Missouri Constitution and state law. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.3 million historically appropriated in odd numbered fiscal years and \$100,000 appropriated in even numbered fiscal years to meet these requirements. Through FY 2013, the appropriation had historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2015, the General Assembly changed the appropriation so that it was no longer an estimated appropriation. In FY 2017 the SOS was appropriated \$2.6 million to publish the full text of the measures. In FY 2017, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$2.4 million to publish (an average of \$400,000 per issue). The SOS will continue to assume, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. Because these publications are mandatory, we reserve the right to request funding to meet the cost requirements if the Governor and the General Assembly again change the amount or continue to not designate it as an estimated appropriation.

ASSUMPTION (continued)

Oversight has reflected in this fiscal note, the state potentially reimbursing local political subdivisions the cost of having this joint resolution voted on during a special election in fiscal year 2018. This reflects the decision made by the Joint Committee on Legislative Research, that the cost of the elections should be shown in the fiscal note. The next scheduled statewide primary elections are in August 2018 and the next scheduled general election is in November 2018 (FY 2019). It is assumed the subject within this proposal could be on one of these ballots; however, it could also be on a special election called for by the Governor. Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2018.

Oversight will range the potential cost for a special election from \$0 (no special election held) to More than \$7,800,000 **if** the Governor calls a special election for this purpose.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would reduce Total State Revenues by an estimated \$5,068.2 million annually, once fully implemented.

This proposal would limit annual appropriations growth to the sum of the annual inflation rate and the annual percentage change in the population of Missouri above in the prior fiscal year's appropriated amount.

This proposal would also limit net general revenue collections. In fiscal years where net general revenue collections exceed state general revenue appropriations by more than 1%, the lowest state income tax rate will be eliminated. This would occur until there is a single income tax rate. Once there is a single income tax rate, that rate would be reduced by 0.25% each fiscal year where net general revenues collected are 2.5% or more than the actual total state general revenue appropriation. This rate reduction will occur until there is no longer a state income tax.

For the purposes of this fiscal note, BAP officials assume that the elimination of the tax rate would occur for the tax year immediately following the end of each fiscal year where this trigger has been met. For the purposes of this fiscal note, BAP officials also assume that SB 509 (2014) would be triggered each year from tax year 2018 through tax year 2022. However, BAP officials note this proposal would likely delay the income tax rate reduction and business exemption provisions of SB 509.

ASSUMPTION (continued)

BAP officials estimate this proposal could begin as early as 2020 and, if triggered each subsequent year, would fully phase-out the state income tax by tax year 2049. BAP officials estimate, based on tax year 2014 data, that this proposal would reduce general and total state revenues in the following amounts by tax year.

Figures in \$ millions

Tax Year 1	\$47.5	Tax Year 16	\$2,497.3
Tax Year 2	\$110.7	Tax Year 17	\$2,694.1
Tax Year 3	\$190.9	Tax Year 18	\$2,890.2
Tax Year 4	\$284.1	Tax Year 19	\$3,090.7
Tax Year 5	\$394.4	Tax Year 20	\$3,284.6
Tax Year 6	\$517.9	Tax Year 21	\$3,478.9
Tax Year 7	\$651.4	Tax Year 22	\$3,665.7
Tax Year 8	\$803.2	Tax Year 23	\$3,850.4
Tax Year 9	\$1,023.2	Tax Year 24	\$4,033.2
Tax Year 10	\$1,240.7	Tax Year 25	\$4,212.9
Tax Year 11	\$1,457.8	Tax Year 26	\$4,390.7
Tax Year 12	\$1,669.5	Tax Year 27	\$4,572.2
Tax Year 13	\$1,875.7	Tax Year 28	\$4,738.8
Tax Year 14	\$2,087.3	Tax Year 29	\$4,905.7
Tax Year 15	\$2,289.5	Tax Year 30	\$5,068.2

Officials from the **University of Missouri - Economic & Policy Analysis Research Center (EPARC)** assume this proposal would submit to the voters a constitutional amendment to cap appropriations and reduce income tax rates based on revenue growth. It defines an “appropriations growth limit” as “a percentage figure that is the greater of zero or the sum of the annual rate of inflation and the annual percentage change in the population of Missouri.” “If any fiscal year when the net general revenue collections are more than 1% of the total state general revenue appropriations allowed (the “appropriation growth limit”), the lowest state income tax rate in effect is permanently eliminated until there is only one single rate in effect.” Once there becomes only one income tax rate, if the “amount by which net general revenue collections exceeds total state general revenue appropriations, the top rate of state income tax shall be reduced by one-quarter of one percent.”

ASSUMPTION (continued)

In this response we will assume the revenue trigger would be met every year, providing a maximum impact estimate for 2018, 2019 and 2020.

Existing legislation would be increasing future tax brackets. Starting in 2017, existing legislation would be increasing the tax brackets by the same percentage increase evident in the CPI from the previous year. For this response, since we are unable to predict future inflation rates, we will use the long-term average inflation rate for all baseline estimates in this response, 2%. We will create baselines and run simulations for 2018, 2019 and 2020.

The 2018 Baseline below increases the Missouri tax brackets by 2% from 2017 levels. The 2018 Simulation below eliminates the 1 ½ % tax rate within the context of these projected 2018 tax brackets.

2018 Baseline

If the Missouri taxable income is:

Not over \$1,028

Over \$1,028 but not over \$2,016

Over \$2,056 but not over \$3,024

Over \$3,084 but not over \$4,032

Over \$4,113 but not over \$5,040

Over \$5,141 but not over \$6,048

Over \$6,169 but not over \$7,056

Over \$7,197 but not over \$8,064

Over \$8,225 but not over \$9,072

Over \$9,253

The tax is:

1 ½ % of the Missouri taxable income

\$15 plus 2 % of excess over \$1,028

\$36 plus 2 ½ % of excess over \$2,056

\$62 plus 3 % of excess over \$3,084

\$93 plus 3 ½ % of excess over \$4,113

\$129 plus 4 % of excess over \$5,141

\$170 plus 4 ½ % of excess over \$6,169

\$216 plus 5 % of excess over \$7,197

\$267 plus 5 ½ % of excess over \$8,225

\$324 plus 6 % of excess over \$9,253

2018 Simulation

If the Missouri taxable income is:

Not over \$1,028

Over \$1,028 but not over \$2,056

Over \$2,056 but not over \$3,084

Over \$3,084 but not over \$4,113

Over \$4,113 but not over \$5,141

Over \$5,141 but not over \$6,169

Over \$6,169 but not over \$7,197

Over \$7,197 but not over \$8,225

Over \$8,225 but not over \$9,253

Over \$9,253

The tax is:

0 % of the Missouri taxable income

2 % of excess over \$1,028

\$21 plus 2 ½ % of excess over \$2,056

\$46 plus 3 % of excess over \$3,084

\$77 plus 3 ½ % of excess over \$4,113

\$113 plus 4 % of excess over \$5,141

\$154 plus 4 ½ % of excess over \$6,169

\$200 plus 5 % of excess over \$7,197

\$252 plus 5 ½ % of excess over \$8,225

\$308 plus 6 % of excess over \$9,253

ASSUMPTION (continued)

EPARC summarized the results of their simulations. The 2018 baseline for our analysis, where the brackets have been increased 2% from 2017 levels indicates Net Tax Due is \$5,799.916 million. Table 2 reports the simulation results of the elimination of the 1 ½ % tax rate with a Net Tax Due equal to \$5,753.841 million, a reduction of \$46.075 million from the baseline.

The 2019 Baseline below increases the Missouri tax brackets by 2% from 2018 levels. The 2019 Simulation below eliminates the 1 ½ % and 2 % tax rates within the context of these projected 2019 tax brackets.

2019 Baseline

If the Missouri taxable income is:

Not over \$1,049

Over \$1,049 but not over \$2,097

Over \$2,097 but not over \$3,146

Over \$3,146 but not over \$4,195

Over \$4,195 but not over \$5,244

Over \$5,244 but not over \$6,292

Over \$6,292 but not over \$7,341

Over \$7,341 but not over \$8,390

Over \$8,390 but not over \$9,438

Over \$9,438

The tax is:

1 ½ % of the Missouri taxable income

\$16 plus 2 % of excess over \$1,049

\$37 plus 2 ½ % of excess over \$2,097

\$63 plus 3 % of excess over \$3,146

\$94 plus 3 ½ % of excess over \$4,195

\$131 plus 4 % of excess over \$5,244

\$173 plus 4 ½ % of excess over \$6,292

\$220 plus 5 % of excess over \$7,341

\$273 plus 5 ½ % of excess over \$8,390

\$330 plus 6 % of excess over \$9,438

2019 Simulation

If the Missouri taxable income is:

Not over \$2,097

Over \$2,097 but not over \$3,146

Over \$3,146 but not over \$4,195

Over \$4,195 but not over \$5,244

Over \$5,244 but not over \$6,292

Over \$6,292 but not over \$7,341

Over \$7,341 but not over \$8,390

Over \$8,390 but not over \$9,438

Over \$9,438

The tax is:

0 % of the Missouri taxable income

2 ½ % of excess over \$2,097

\$26 plus 3 % of excess over \$3,146

\$58 plus 3 ½ % of excess over \$4,195

\$94 plus 4 % of excess over \$5,244

\$136 plus 4 ½ % of excess over \$6,292

\$184 plus 5 % of excess over \$7,341

\$236 plus 5 ½ % of excess over \$8,390

\$294 plus 6 % of excess over \$9,438

ASSUMPTION (continued)

Table 3 reports the baseline for our analysis where Net Tax Due is \$5,787.678 million. Table 4 reports the simulation results of the elimination of the 1 ½ % and 2 % tax rates. In Table 4, Net Tax Due equals \$5,685.274 million, a reduction of \$102.404 million from the baseline.

The 2020 Baseline below increases the Missouri tax brackets by 2% from 2019 levels. The 2020 Simulation below eliminates the 1 ½ %, 2 % and 2 ½ % tax rates within the context of these projected 2020 tax brackets.

2020 Baseline

If the Missouri taxable income is:

Not over \$1,070

Over \$1,070 but not over \$2,139

Over \$2,139 but not over \$3,209

Over \$3,209 but not over \$4,279

Over \$4,279 but not over \$5,349

Over \$5,349 but not over \$6,418

Over \$6,418 but not over \$7,488

Over \$7,488 but not over \$8,558

Over \$8,558 but not over \$9,627

Over \$9,627

The tax is:

1 ½ % of the Missouri taxable income

\$16 plus 2 % of excess over \$1,070

\$37 plus 2 ½ % of excess over \$2,139

\$64 plus 3 % of excess over \$3,209

\$96 plus 3 ½ % of excess over \$4,279

\$134 plus 4 % of excess over \$5,349

\$176 plus 4 ½ % of excess over \$6,418

\$225 plus 5 % of excess over \$7,488

\$278 plus 5 ½ % of excess over \$8,558

\$337 plus 6 % of excess over \$9,627

2020 Simulation

If the Missouri taxable income is:

Not over \$3,209

Over \$3,209 but not over \$4,279

Over \$4,279 but not over \$5,349

Over \$5,349 but not over \$6,418

Over \$6,418 but not over \$7,488

Over \$7,488 but not over \$8,558

Over \$8,558 but not over \$9,627

Over \$9,627

The tax is:

0 % of the Missouri taxable income

3 % of excess over \$3,209

\$32 plus 3 ½ % of excess over \$4,279

\$70 plus 4 % of excess over \$5,349

\$112 plus 4 ½ % of excess over \$6,418

\$160 plus 5 % of excess over \$7,488

\$214 plus 5 ½ % of excess over \$8,558

\$273 plus 6 % of excess over \$9,627

Table 5 reports the baseline for our analysis where Net Tax Due is \$5,777.084 million. Table 6 reports the simulation results of the elimination of the 1 ½ % and 2 % tax rates. In Table 6, Net Tax Due equals \$5,599.946 million, a reduction in Net Tax Due of \$177.138 million from the baseline.

ASSUMPTION (continued)

Oversight will use the EPARC estimate of revenue reduction in this fiscal note. Oversight is aware of other factors which could influence future state revenues and the periodic revenue reductions that would be required if this proposal is implemented, including the current (Hancock) revenue limitations and SB 509 (2014). Oversight assumes the impact of those other factors could change the years in which income tax rate reductions would be triggered by this proposal but does not believe the overall effect of this proposal would change.

Oversight notes this proposal would only become effective if approved in a vote by the people and assumes for fiscal note purposes the election could be held in November 2018. Oversight notes the changes in this proposal would be effective beginning January 1, 2019, and the first income tax returns would be filed reflecting these changes in January, 2020 (FY 2020). Oversight is aware some filers would reduce their income tax withholding or their estimated tax payments in anticipation of a tax reduction but does not have information as to the impact of those adjustments. For fiscal note purposes, Oversight would include the revenue reductions in the year in which the affected tax returns would be filed; however, the first year this proposal would have an impact would be FY 2020.

Oversight will range the fiscal impact of this SJR from \$0 (not approved by the voters) to the amount estimated by EPARC of \$46 million in the first year of implementation. Oversight notes the fully implemented impact of this proposal would be the complete elimination of the state personal income tax, or \$5.8 billion based on current estimates, but due to the potential interaction with other legislation which could change the impact of this proposal Oversight will not include a fully implemented estimate in this fiscal note.

Officials from the **Joint Committee on Administrative Rules**, the **Department of Revenue**, **Callaway County**, the **Jackson County Election Board**, and the **St. Louis County Directors of Elections** assume this proposal would have no fiscal impact on their organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
GENERAL REVENUE FUND			
<u>Transfer Out</u> - Office of the Secretary of State - reimbursement of local election authorities for election costs if a special election is called	\$0 or (Greater than \$7,800,000)	\$0	\$0
<u>Revenue reduction</u> - income tax phase out	<u>\$0</u>	<u>\$0</u>	\$0 or <u>(\$46,075,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0 or (Greater than \$7,800,000)</u>	<u>\$0</u>	<u>\$0 or (\$46,075,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
LOCAL GOVERNMENTS			
<u>Transfer In</u> - Cost reimbursement from the State for special election	\$0 or Greater than \$7,800,000	\$0	\$0
<u>Cost</u> - Cost for special election if called for by the governor	\$0 or (Greater than \$7,800,000)	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

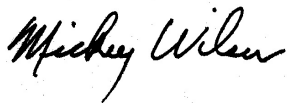
FISCAL DESCRIPTION

This proposal would submit to the voters a Constitutional Amendment to place a cap on annual appropriations and reduce income tax rates based on revenue growth.

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 the Secretary of State
Economic & Policy Analysis Research Center
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Revenue
Callaway County
Jackson County Election Board
St. Louis County Directors of Elections



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