COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4409-11
Bill No.: HCS for SS#2 for SB 674
Subject: Taxation and Revenue - Income, Corporations, Department of Revenue, Taxation and Revenue - Sales and Use
Type: Original
Date: May 9, 2018

Bill Summary: This proposal modifies the laws regarding taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2025)
General Revenue	$126,368,267	$238,161,850	$239,960,758	$44,956,270
Total Estimated Net Effect on General Revenue	**$126,368,267**	**$238,161,850**	**$239,960,758**	**$44,956,270**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2025)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 15 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2025)
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2025)
General Revenue	3 FTE	3 FTE	3 FTE	3 FTE
Total Estimated Net Effect on FTE	**3 FTE**	**3 FTE**	**3 FTE**	**3 FTE**

☐ 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 2019	FY 2020	FY 2021	Fully Implemented (FY 2025)
Local Government	**($2,300,000)**	**($5,000,000)**	**($5,600,000)**	**($7,700,000)**

FISCAL ANALYSIS

ASSUMPTION

§32.200, §143.451 - §143.471 Allocation Method

Officials at the **Office of Administration Division of Budget and Planning** (**B&P**) assume this section creates a single-sales factor corporate income allocation method. Sections 32.200, 143.451, 143.461, 143.471, and 620.1350 disallow other corporate income allocation methods beginning in tax year 2019.

Based on information provided by DOR, moving to a single-sales factor only allocation method would increase Total State Revenue and General Revenue by $141.6 million once fully implemented, at the current corporate tax rate of 6.25%. However, §143.071 would reduce the corporate tax rate to 5.5% in tax year 2019 and then further reduce the rate by 0.1% increments until the corporate rate is 5.0%. Therefore, factoring in the lower corporate tax rate, B&P estimates that this provision will increase Total State Revenue and General Revenue by $113.3 million once fully implemented.

The following table shows the Total State Revenue and General Revenue impact from these sections by corporate tax rate.

Figures in Millions

Corporate Tax Rate	Allocation Saving
5.50%	124.6
5.40%	122.4
5.30%	120.1
5.20%	117.8
5.10%	115.6
5.00%	113.3

Officials at the **Department of Revenue** (**DOR**) assume these proposed sections would remove Corporate Method One - Multistate Allocation and Three Factor Apportionment and Method Two - Business Transaction Single Factor Apportionment to be replaced by the Optional Single Sales Factor Apportionment. The Department estimates that this could potentially increase state revenues by an estimated $141.6 million when fully implemented.

DOR's Corporate Tax Section would require one Revenue Processing Technician I ($26,340) for every 2,600 pieces of additional correspondence that are generated.

ASSUMPTION (continued)

Oversight notes this request for FTE has changed from similar bills submitted this year regarding corporate apportionment. DOR states the Corporate Tax Section has reevaluated their need for staff due to the changes proposed. Oversight will show the FTE in the fiscal note.

§143.011 Individual Income Tax Rate
Officials at the **B&P** assume that beginning with tax year 2019: Section 143.011 alters the tax brackets and tax rates, shown in the following table.

Min Income	Max Income	Tax Rate
$0	$1,000	3.5%
$1,001	$2,000	4.0%
$2,001	$3,000	4.5%
$3,001	$4,000	5.0%
$4,001		5.5%

Section 243.011.2 would also allow the rate to be reduced by 0.1% annually, until the top rate reaches 5.0%. The tax rate shall only be reduced if net general revenue collected in the previous fiscal year is at least $150 million greater than the largest amount of net general revenue collected in the previous three fiscal years. For the purposes of this fiscal note, B&P assumes that each tax rate reduction occurs in consecutive years. B&P acknowledges that it is likely that the net GR requirement is not met every year and thus the rate reductions will not occur; therefore, the earliest this provision could be fully implemented is in FY 2025.

Section 143.011.2(4) clarifies that the top bracket is not eliminated once the top rate declines to the next lowest rate. B&P estimates that this provision will not impact Total State Revenue or the calculation under Article X, Section 18(e).

Section 143.011.4(3) defines net general revenue. B&P estimates that this provision will not impact Total State Revenue or the calculation under Article X, Section 18(e).

Based on 2015 tax year data, the most current and complete year available, B&P estimates that these provisions will increase Total State Revenue and General Revenue by $81.0 million in FY 2019. Once fully implemented, these provisions will decrease Total State Revenue and General Revenue by ($12.8 million).

ASSUMPTION (continued)

The following table shows the estimated impact by tax year (figures in Millions).

Tax Year	General Revenue Impact
TY18	$20.0
TY19	$144.3
TY20	$153.2
TY21	$156.9
TY22	$164.4
TY23	$71.3
TY24	($18.3)

The following table shows the estimated impact by fiscal year (figures in Millions)

Fiscal Year	General Revenue Impact
FY 2019*	$81.0
FY 2020	$149.2
FY 2021	$157.6
FY 2022	$165.2
FY 2023	$131.7
FY 2024	$39.9
FY 2025	($12.8)

**Includes the elimination of the head of household deduction in tax year 2018 and retaining the pass-through business income exemption at 5% beginning with tax year 2019.

Officials at the **DOR** assume this proposed section changes the individual income tax rate for all tax years beginning on or after January 1, 2019.

If the Missouri taxable income is: The tax is:

Not over $1,000	3 ½% of the Missouri taxable income
Over $1,000 but not over $2,000	$35 plus 4% of excess over $1,000
Over $2,000 but not over $3,000	$75 plus 4 ½% of excess over $2,000
Over $3,000 but not over $4,000	$120 plus 5% of excess over $3,000
Over $4,000	$170 plus 5.5% of excess over $4,000

ASSUMPTION (continued)

The top rate shall not be reduced below five percent. SB 509 (2014) triggers are still applicable in this proposed legislation.

DOR estimates the individual income tax changes would result in an increase of revenue of $81.0 million in FY 2019 and a decrease in state revenue of $12.8 million once fully implemented.

DOR's Personal Tax Section requires one Revenue Processing Technician I ($26,340) for every 14,700 errors created and one Revenue Processing Technician I ($26,340) for every 5,700 pieces of correspondence generated.

Oversight notes this request for FTE has changed from similar bills submitted this year regarding income tax rate changes. The Personal Tax Section has reevaluated their need for staff due to the changes proposed. Oversight will show the FTE in the fiscal note.

Oversight will use the estimates provided by B&P and DOR.

§143.022 Business Tax
Officials at the **DOR** assume this proposed section eliminates the increase in the deduction a pass through entity may deduct from their income, keeping it at five percent in FY 2018. Currently, a pass-through entity can deduct five percent from its 2018 Missouri taxable income. The amount of the deduction was set to increase five percent each year if certain net general revenue limits are met up to a maximum 25 percent deduction.

Officials at the **B&P** assume section 143.022 would limit the pass-through business exemption to the 5% allowed under current law. B&P notes that as of tax year 2018, the first phase-in of the business pass-through exemption was triggered due to net general revenue growth.

§143.071 Corporate Tax Rate
Officials at the **B&P** assume §143.071 would reduce the corporate tax rate from the current 6.25% to 5.5% beginning with tax year 2019. Section 143.071.5 would also allow the rate to be reduced by 0.1% annually, until the corporate tax rate reaches 5.0%. The tax rate shall only be reduced if net general revenue collected in the previous fiscal year is at least $150 million greater than the largest amount of net general revenue collected in the previous three fiscal years. For the purposes of this fiscal note, B&P assumes that each tax rate reduction occurs in consecutive years. B&P acknowledges that it is likely that the net General Revenue requirement is not met every year and thus the rate reductions will not occur; therefore, the earliest this provision could be fully implemented is in FY 2025.

ASSUMPTION (continued)

Based on FY 2017 net corporate collections of $276.2 million, B&P estimates that this provision will reduce Total State Revenue and General Revenue by ($55.2 million) annually, once fully implemented. The following table shows the impact by fiscal year.

Fiscal Year	Impact
FY19	($16.6)
FY20	($35.4)
FY21	($39.8)
FY22	($44.2)
FY23	($48.6)
FY24	($53.0)
FY25	($55.2)

Figures in Millions

Officials at the **DOR** assume §143.071 changes the tax imposed upon the Missouri taxable income of corporations in an amount equal to five and one-half percent of Missouri taxable income. Beginning with calendar year 2018, the legislation reduces the remaining tax rates by 0.1%, and the rate shall not be reduced under five percent. However, a reduction may only occur if net general revenue collected is at least $150 million greater than the highest net general revenue collected in the previous three fiscal years.

DOR estimates a loss of revenue of $16.6 million in FY 2019 and $55.2 million once fully implemented.

Oversight will use the estimates provided by B&P and DOR.

§143.151 and §143.161 Personal and Dependent Exemptions

Officials at the **DOR** assume this proposed section provides that Missouri personal and dependency exemptions shall not be allowed if the federal exemption amount is zero. Due to the passage of federal tax reform the Department assumes there is no impact.

Officials at the B&P assume §143.151 would end the personal exemption and low-income deduction for tax years after 2017. B&P notes that due to changes in the federal tax reform package that took effect January 1, 2018 both the Missouri personal exemption and the low-income deduction ended once the federal reform was enacted.

ASSUMPTION (continued)

Section 143.161 would end the dependency and stillbirth exemptions as well as the additional deduction for head of household and surviving spouse tax filers for tax years after 2017. B&P notes that due to changes in the federal tax reform package that took effect January 1, 2018 both the Missouri dependency and stillbirth exemptions ended once the federal reform was enacted. B&P further notes that the head of household / surviving spouse deduction is based on filing status and did not end with the enactment of the federal tax reform.

§143.431 Consolidated Returns
Officials at the **B&P** assume this section states that all transactions between affiliated members shall be eliminated on the Missouri consolidated income tax return. B&P notes that under this provision some corporations filing a consolidated return may have a positive impact on their tax liability, while others may have a negative impact to their tax liability. B&P is unable to determine which impacts, in the aggregate, would be greater. Therefore, due to these data limitations, BAP cannot estimate an exact impact from this section. However, this provision may have an unknown impact on Total State Revenue and General Revenue.

§148.720 Bank Tax
Officials at the **B&P** assume these sections would reduce the financial taxes paid by banks, credit unions, and savings and loan institutions in the event that the corporate tax rate under Section 143.071 was reduced. The financial tax rates are to be reduced by an amount proportional to any tax rate reductions in Section 143.071. B&P notes that the current tax rate for financial institutions is 7%. B&P further notes that 2% of collections are deposited into General Revenue while the remaining collections are distributed to locals.

Based on FY net collections of $39.5 million, B&P estimates that these provisions will reduce Total State Revenue and General Revenue by $0.1 million in FY 2029 and $0.2 million annually, once fully implemented in FY 2025. B&P also estimates that this will reduce local revenues by $7.7 million once fully implemented.

The following table shows the tax rate, General Revenue impact, and local impact by tax year (figures in Millions).

Tax Year	New Tax Rat	GR Loss	Local Loss
2019	6.2%	($0.1)	($4.6)
2020	6.0%	($0.1)	($5.3)
2021	5.9%	($0.1)	($5.9)
2022	5.8%	($0.1)	($6.5)
2023	5.7%	($0.1)	($7.1)
2024	5.6%	($0.2)	($7.7)

ASSUMPTION (continued)

DOR estimates a loss of revenue of $100,000 in FY 2019 and $200,000 once fully implemented.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume there is no fiscal impact from this proposal.

B&P Summary
In total, B&P estimates this proposal will increase Total State Revenue by approximately $126.7 million in FY 2019. Once fully implemented, this proposal will increase Total State Revenue by approximately $45.1 million annually. The following tables show the revenue impacts per proposal provision.

Tax Impact (figures in Millions)

State Impacts	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**	**FY 2025**
Individual Income Tax	$81.0	$149.2	$157.6	$165.2	$131.7	$39.9	($12.8)
Corporate Rate Reduction	($16.6)	($35.4)	($39.8)	($44.2)	($48.6)	($53.0)	($55.2)
Corporate Allocation Method	$62.3	$124.6	$122.4	$120.1	$117.8	$115.6	$113.3
Bank Tax Rate Reduction	($0.1)	($0.1)	($0.1)	($0.1)	($0.1)	($0.2)	($0.2)
Impact to TSR and GR	**$126.7**	**$238.4**	**$240.1**	**$241.0**	**$200.8**	**$102.4**	**$45.1**
Local Impacts	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**	**FY 2025**
Bank Tax Rate Reduction	($2.3)	($5.0)	($5.6)	($6.2)	($6.8)	($7.4)	($7.7)
Total Impact to Local Revenues	**($2.3)**	**($5.0)**	**($5.6)**	**($6.2)**	**($6.8)**	**($7.4)**	**($7.7)**

DOR Summary
DOR assumes the proposed legislation may increase total state revenues by an estimated $45.1 million when fully implemented in FY 2025.

Provision	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Individual Income Tax	$81.0	$149.2	$157.6	$165.2	$131.7	$39.9	($12.8)
Corporate Rate Reduction	($16.6)	($35.4)	($39.8)	($44.2)	($48.6)	($53.0)	($55.2)
Single-Sales Factor	$62.3	$124.6	$122.4	$120.1	$117.8	$115.6	$113.3
Bank Tax Rate Reduction	($0.1)	($0.1)	($0.1)	($0.1)	($0.1)	($0.2)	($0.2)
GR and TSR Impact	$126.7	$238.4	$240.1	$241.0	$241.0	$102.4	$45.1

ASSUMPTION (continued)

EPARC Calculations
Officials at the **University of Missouri's Economic and Policy Analysis Research Center** (**EPARC**) assume we will restrict our analysis to those changes pertaining to the individual income tax. If enacted, this bill would repeal the personal exemption deduction and dependency exemption deduction. This bill would change the taxable income classes as they apply to the Missouri personal income tax table. It would reduce the current ten bracket table to five brackets.

The baseline below shows the personal income tax brackets as they will appear in 2018 under current law. Immediately following the baseline we show the brackets and rates for 2019, 2020, and 2021 proposed by this bill.

Baseline

If the Missouri taxable income is:	The tax is:
Not over $1,028 …	1 ½ % of the Missouri taxable income
Over $1,028 but not over $2,056 …	$15 plus 2 % of excess over $1,028
Over $2,056 but not over $3,084 …	$36 plus 2 ½ % of excess over $2,056
Over $3,084 but not over $4,112 …	$62 plus 3 % of excess over $3,084
Over $4,112 but not over $5,140 …	$93 plus 3 ½ % of excess over $4,112
Over $5,140 but not over $6,168 …	$129 plus 4 % of excess over $5,140
Over $6,168 but not over $7,196 …	$170 plus 4 ½ % of excess over $6,168
Over $7,196 but not over $8,224 …	$216 plus 5 % of excess over $7,196
Over $8,224 but not over $9,253 …	$267 plus 5 ½ % of excess over $8,224
Over $9,253 …	$324 plus 5.9 % of excess over $9,253

2019-2021

If the Missouri taxable income is:	The tax is:
Not over $1,028 …	3 ½ % of the Missouri taxable income
Over $1,028 but not over $2,056 …	$35 plus 4 % of excess over $1,028
Over $2,056 but not over $3,084 …	$76 plus 4 ½ % of excess over $2,056
Over $3,084 but not over $4,112 …	$122 plus 5 % of excess over $3,084
Over $4,112 …	$174 plus 5 ½ % of excess over $4,112

The baseline for our analysis where Net Tax Due is $5,454.004 million. The simulation results of the parameter changes in this bill shows Net Tax Due equals $5,444.463 million. This is a decrease in Net Tax Due of $9.541 million from the baseline. Therefore, this corresponds to a decrease in Net General Revenue of $9.541 million due to this change in the Missouri tax brackets and rates, the repeal of the personal exemption deduction and dependency exemption deduction.

ASSUMPTION (continued)

As noted in several other fiscal notes this year regarding taxation, EPARC does not account for SB 509 scheduled tax rate changes in its calculations. Therefore, **Oversight** will use the estimates provided by B&P and DOR in the fiscal note.

FISCAL IMPACT - State Government	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented (FY 2025)
GENERAL REVENUE				
Additional Revenue Single-Sales Factor Allocation §§32.200, 143.451-143.471, 620.1350	$62,300,000	$124,600,000	$122,400,000	$113,300,000
Cost - DOR				
Personal Service	($26,340)	($26,603)	($26,869)	($27,960)
Fringe Benefits	($18,611)	($18,689)	($18,768)	($19,092)
Equip & Exp	($8,518)	($757)	($776)	($856)
Total Cost - DOR	($53,469)	($46,050)	($46,414)	($47,909)
Total FTE Change	1 FTE	1 FTE	1 FTE	1 FTE
Total Corp Alloc	$62,246,531	$124,553,950	$122,353,586	$113,252,091
Revenue - Individual Income Tax Rate Changes §143.011	$81,000,000	$149,200,000	$157,600,000	($12,800,000)
Cost - DOR §143.011				
Personal Service	($52,680)	$532,070	($53,739)	($55,921)
Fringe Benefits	($33,626)	($37,378)	($37,536)	($38,185)
Equip & Exp	($91,958)	($1,515)	($1,553)	($1,715)
Total Cost - DOR	($178,264)	($92,100)	($92,828)	($95,821)
Total FTE Change	2 FTE	2 FTE	2 FTE	2 FTE
Total Income Tax	$80,821,736	$149,107,900	$157,507,172	($12,895,821)

FISCAL IMPACT - State Government (continued)	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented (FY 2025)
GENERAL REVENUE (continued)				
Revenue Reduction Corporate Tax Rate Reduction from 6.25% to 5.0% §143.071	($16,600,000)	($35,400,000)	($39,800,000)	($55,200,000)
Revenue - corporations income tax filing changes §143.431	Unknown to (Unknown)	Unknown to (Unknown)	Unknown to (Unknown)	Unknown to (Unknown)
Revenue Reduction Bank Tax Rate Reduction §148.720	($100,000)	($100,000)	($100,000)	($200,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$126,368,267**	**$238,161,850**	**$239,960,758**	**$44,956,270**
Estimated Net FTE Change on General Revenue	3 FTE	3 FTE	3 FTE	3 FTE

FISCAL IMPACT - Local Government	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented (FY 2025)
LOCAL POLITICAL SUBDIVISION FUNDS				
Revenue Reduction				
Bank Tax Rate Reduction §148.720	($2,300,000)	($5,000,000)	($5,600,000)	($7,700,000)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISION FUNDS	**($2,300,000)**	**($5,000,000)**	**($5,600,000)**	**($7,700,000)**

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This act modifies several provisions relating to taxation.

INDIVIDUAL INCOME TAX - This act provides that when an income bracket is eliminated from the tax table, the top remaining tax rate shall apply to all income in excess of the second highest remaining income bracket.

This act also creates a definition for "net general revenue collected", which includes all revenue deposited into the general revenue fund, less refunds and revenues originally deposited into the general revenue fund but designated by law for a specific distribution or transfer to another state fund.

CORPORATE INCOME TAX - For all tax years beginning on or after January 1, 2019, this act reduces the corporate income tax rate from 6.25% to 3.5%. (§143.071)

FISCAL DESCRIPTION (continued)

This act removes the requirement that an affiliated group of corporations have fifty percent or more of its income derived from sources within this state in order to file a consolidated return, and eliminates transactions between affiliated members of the group from such consolidated return. (§143.431)

For all tax years beginning on or after January 1, 2019, this act modifies the Multistate Tax Compact by requiring corporations subject to income tax in this state to apportion and allocate income according to the income tax provisions provided in Chapter 143, and disallows the three-factor apportionment option available in the Multistate Tax Compact. (§32.200)

For all tax years beginning on or after January 1, 2019, this act modifies the law relating to the allocation and apportionment of corporate income by requiring corporations to determine their income derived from sources within this state according to the provisions of this act.

ALLOCABLE INCOME - Net rents and royalties from real property located in the state, and capital gains from the sale of such property, is allocable to the state. Net rents and royalties from tangible personal property are allocable to the state to the extent that the property is used in this state, or in their entirety if the corporation's commercial domicile is in this state and is not organized or taxable by the state in which the property is utilized, as described in the act. Capital gains from the sale of tangible personal property is allocable to this state if the property had a situs in the state at the time of sale, or if the corporation's commercial domicile is in this state and is not organized or taxable by the state in which the property had a situs, as described in the act. Interest and dividends are allocable to this state if the corporation's commercial domicile is in this state. Patent and copyright royalties are allocable to this state to the extent that the patent or copyright is utilized in this state, or to the extent that the patent or copyright is utilized in a state in which the corporation is not taxable and the corporation's commercial domicile is in this state.

APPORTIONABLE INCOME - All apportionable income shall be apportioned to this state by dividing the total receipts of the corporation in this state during the tax period by the total receipts of the corporation everywhere during the tax period, and multiplying such result by the net income.

Receipts from the sale of tangible personal property shall be considered in this state if the property is received in this state by the purchaser, as described in the act. Receipts from all other sales shall be considered in this state if the corporation's market for such sales is in this state, as described in the act.

In the case of certain industries where unusual factual situations produce inequitable results under the apportionment and allocation provisions of this act, the Director of Revenue shall

FISCAL DESCRIPTION (continued)

promulgate rules for determining the apportionment and allocation factors for each such industry. In such a case, a corporation may petition the Director of Revenue, as described in the act. (§143.451, §143.455, §143.471, §620.1350)

This act provides that the method of allocation and apportionment elected by a corporation shall expire after five years, or whenever the director of revenue finds and notifies such corporation that such method does not show the income applicable to this state, whichever occurs first. After such expiration or revocation, the corporation may elect to use the same or a different method. Failure to make such an election shall constitute an election to comply with the allocation and apportionment provisions provided by the act. (§143.461)

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 Insurance, Financial Institutions and Professional Registration
Department of Revenue
Office of Administration
Division of Budget and Planning
University of Missouri's Economic and Policy Analysis Research Center

Ross Strope

Acting Director
May 9, 2018

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