COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4790-01
Bill No.: SB 667
Subject: Taxation and Revenue - Income
Type: Original
Date: January 18, 2018

Bill Summary: This proposal increases the amount of the personal income tax cut and the business income deduction in current law.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2023)
General Revenue*	($117,753,000) to ($186,066,000)	($229,879,000) to ($241,553,000)	($338,407,000) to ($340,147,000)	($488,000,000) to ($542,587,000)
Total Estimated Net Effect on General Revenue*	**($117,753,000) to ($186,066,000)**	**($229,879,000) to ($241,553,000)**	**($338,407,000) to ($340,147,000)**	**($488,000,000) to ($542,587,000)**

* This proposal would be implemented in five increments, dependent on General Revenue receipts. Oversight is reflecting the impact as if General Revenue collections consecutively hit the trigger, spurring a rate change. The proposal could be fully implemented as early as FY 2023.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2023)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 16 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2023)
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 2023)
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 2019	FY 2020	FY 2021	Fully Implemented (FY 2023)
Local Government	**$0**	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning** (**B&P**) assume this proposal will reduce the top income rate in 0.2% steps from 6.0 % to 5.0% in five increments as well as increase the pass-through business exemption by 10% from 0% to 50% in five increments. (Current law reduces the rate to 5.5% in five increments and increases the pass-through exemption to 25% in five increments.) This provision is subject to a growth trigger of $150 million in Net General Revenue above the highest of the three previous fiscal years, and may begin in the Tax Year beginning 1/1/17. However, B&P notes that the trigger was first reached for the tax year beginning 1/1/18 and therefore the first impact from this proposal would be seen in tax year 2018.

B&P estimates, based on Tax Year 2015 data, the most recent year available, that this proposal would reduce General and Total State Revenues in the following amounts by tax year:

Figures in $M

Tax Year 2018	$99.9
Second Tax Year	$197.5
Third Tax Year	$296.6
Fourth Tax Year	$392.8
Fifth Tax Year	$488.0

B&P notes that this proposal would become effective 8/28/18, eight months after the start of tax year 2018, but is retroactive to 1/1/18. This would give taxpayers only four months, and one due date for declarations, to adjust their withholdings and estimated payments to match the new tax structure. B&P also notes that since this proposal would become effective after the start of FY 2019, the full impact from the rate reduction and pass-through exemption in tax year 2018 would occur in FY 2019.

This proposal could reduce General and Total State Revenues in FY 2019 by an estimated $182.7 million. When fully phased-in (FY 2023), the proposal will reduce General and Total State Revenues by an estimated $488.0 million.

ASSUMPTION (continued)

Figures in $M

FY 2019	$182.7
FY 2020	$239.1
FY 2021	$337.0
FY 2022	$432.8
FY 2023	$488.0

B&P notes this proposal is effective for Tax Year 2018, but Tax Year 2015 data is the most recent available for analysis. The actual revenue impacts may be substantially different due to the four-year difference.

Section 143.011.2(4) clarifies that the individual income tax will not be eliminated on incomes above $9,000 once the top income tax rate reaches 5.5%.

Officials at the **Department of Revenue** (**DOR**) assume this proposed legislation may decrease General Revenue an estimated $186 million FY 2019, and when fully implemented it may reduce it by an estimated $493.2 million FY 2023.

FY19	FY20	FY 21	FY22	FY23
($186,066,393.46)	($241,553,388.01)	($340,147,288.02)	($452,931,733.98)	($493,245,075.58)

This section increases the reduction to the top individual income tax rate by an additional one-fifth of one percent beginning in 2017. The top rate cannot be reduced to an amount lower than five percent. This reduction only occurs if net General Revenue in the previous year exceeds the highest of the previous three years by $150 million. Additionally, the legislation removes the provision that eliminates the top rate of tax when reduced to five and one-half percent. The department notes that this proposal would become effective 8/28/18, eight months after the start of tax year 2018, but is retroactive to 1/1/18. Since this proposal would become effective after the start of FY 2019, the full impact from the rate reduction and pass-through exemption in tax year 2018 would occur in FY 2019.

The provisions of Section 143.022 increase the percentage from five to ten percent for the subtraction of business income. The maximum amount allow to deduct is fifty percent.

The Department requires form changes and programming support to implement the provisions of this legislation. The Collections & Tax Assistance Section requested additional FTE for the original change to §143.022 and did not receive those FTE. This response is only for the change

ASSUMPTION (continued)

to current law. We may see additional calls about the change in the amount that can be subtracted but we will handle calls related to the percentage change with current staff.

Officials at the **University of Missouri's Economic and Policy Analysis Research Center** (**EPARC**) assume that currently, the top rate of tax on personal income is being reduced over a period of years. Each year that a general revenue growth trigger is met, the top rate will be reduced by 0.1%. The top rate will continue to be reduced until it is lowered from 6% to 5.5%. Also, current legislation states that a business income subtraction will be implemented, starting at 5% and increasing by 5% every year the same general revenue growth trigger is met. This bill will increase the percentage by which the top rate will be reduced and increase the percentage by which the business income subtraction will increase. If enacted, each year the General Revenue growth trigger is met, the top individual income tax rate will reduced by 0.2% and the business income subtraction will be increase by 10%. The top rate will continue to be reduced indefinitely each year the general revenue trigger is met. The business income subtraction will increase until it reaches 50%.

Since the current law (SB 509) has yet to take effect until the 2017 tax year, the best estimate of the impact of this proposed bill will entail using its proposed changes in tax parameters to simulate its impact within the context of existing legislation (SB 509) on the current 2016 baseline and then subtracting a re-estimated impact of SB 509 using the current 2016 baseline data. Therefore, the first portion of this response will re-estimate SB 509 using the most current 2016 baseline data. The second portion of the response will use the above proposed changes in tax parameters and estimate a fiscal impact within the context of existing legislation (SB 509). The summary portion of this response will calculate and explain the impact of this bill as it will reduce Net General Revenue beyond existing legislation.

The net general revenue growth trigger was met for 2018. Therefore, the top tax rate will be reduced to 5.9% and a 5% business income subtraction will be implemented for the 2018 tax year per SB 509. These are represented within our baseline below. Since we are unable to predict future net General Revenue levels that would trip the General Revenue growth trigger, we are restricted to estimate this request as a maximum impact estimate. As such, we will assume going forward that the net General Revenue growth requirement will be met every year beyond 2018 thereby reducing the top individual income tax rate every year.

SB 509 Re-estimated Using 2016 Data: Assuming the net general revenue trigger will be met for five years beginning with the 2018 tax year and ending with the 2022 tax year, SB509 would reduce the top individual income tax rate by one-tenth of one percent each year until it equals 5.5% in 2022. Beginning in 2017 it has already increased the brackets of Missouri taxable

ASSUMPTION (continued)

income within the tax table by the rate of inflation as measured by the CPI by 0.8% for 2017 and another 2% for 2018 as shown in our baseline below. Increases in the tax brackets beyond 2018 will be estimated as follows: According to the Bureau of Labor Statistics, the average increase in the annual CPI for All Urban Consumers for the United States over the last three years is approximately 1.38%. We will use this figure to increase the tax brackets beyond 2018 as shown in the following tables (tax payments were rounded to the nearest dollar). The following tables reflect the changes in the Missouri individual income tax table each year until 2022 according to current legislation:

2018 Tax Year (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 9/10 % of excess over $9,253

2019 Tax Year:

If the Missouri taxable income is:	The tax is:
Not over $1,042 …	1/ ½ % of the Missouri taxable income
Over $1,042 but not over $2,084 …	$16 plus 2 % of excess over $1,042
Over $2,084 but not over $3,127 …	$36 plus 2 ½ % of excess over $2,084
Over $3,127 but not over $4,169 …	$63 plus 3 % of excess over $3,127
Over $4,169 but not over $5,211 …	$94 plus 3 ½ % of excess over $4,169
Over $5,211 but not over $6,253 …	$130 plus 4 % of excess over $5,211
Over $6,253 but not over $7,295 …	$172 plus 4 ½ % of excess over $6,253
Over $7,295 but not over $8,337 …	$219 plus 5 % of excess over $7,295
Over $8,337 but not over $9,381 …	$271 plus 5 ½ % of excess over $8,337
Over $9,381 …	$328 plus 5 4/5 % of excess over $9,381

ASSUMPTION (continued)

2020 Tax Year:

If the Missouri taxable income is:	The tax is:
Not over $1,056 …	1/ ½ % of the Missouri taxable income
Over $1,056 but not over $2,113 …	$16 plus 2 % of excess over $1,056
Over $2,113 but not over $3,170 …	$37 plus 2 ½ % of excess over $2,113
Over $3,170 but not over $4,227 …	$63 plus 3 % of excess over $3,170
Over $4,227 but not over $5,283 …	$95 plus 3 ½ % of excess over $4,227
Over $5,283 but not over $6,339 …	$132 plus 4 % of excess over $5,283
Over $6,339 but not over $7,396 …	$174 plus 4 ½ % of excess over $6,339
Over $7,396 but not over $8,452 …	$222 plus 5 % of excess over $7,396
Over $8,452 but not over $9,510 …	$275 plus 5 ½ % of excess over $8,452
Over $9,510 …	$333 plus 5 7/10 % of excess over $9,510

2021 Tax Year:

If the Missouri taxable income is:	The tax is:
Not over $1,071 …	1/ ½ % of the Missouri taxable income
Over $1,071 but not over $2,142 …	$16 plus 2 % of excess over $1,071
Over $2,142 but not over $3,214 …	$37 plus 2 ½ % of excess over $2,142
Over $3,214 but not over $4,285 …	$64 plus 3 % of excess over $3,214
Over $4,285 but not over $5,356 …	$96 plus 3 ½ % of excess over $4,285
Over $5,356 but not over $6,426 …	$134 plus 4 % of excess over $5,356
Over $6,426 but not over $7,498 …	$177 plus 4 ½ % of excess over $6,426
Over $7,498 but not over $8,569 …	$225 plus 5 % of excess over $7,498
Over $8,569 but not over $9,641 …	$278 plus 5 ½ % of excess over $8,569
Over $9,641 …	$337 plus 5 3/5 % of excess over $9,641

2022 Tax Year and Beyond:

If the Missouri taxable income is:	The tax is:
Not over $1,086 …	1/ ½ % of the Missouri taxable income
Over $1,086 but not over $2,172 …	$16 plus 2 % of excess over $1,086
Over $2,172 but not over $3,258 …	$38 plus 2 ½ % of excess over $2,172
Over $3,258 but not over $4,344 …	$65 plus 3 % of excess over $3,258
Over $4,344 but not over $5,430 …	$98 plus 3 ½ % of excess over $4,344
Over $5,430 but not over $6,515 …	$136 plus 4 % of excess over $5,430
Over $6,515 but not over $7,601 …	$179 plus 4 ½ % of excess over $6,515
Over $7,601 but not over $8,687 …	$228 plus 5 % of excess over $7,601
Over $8,687 …	$282 plus 5 ½ % of excess over $8,687

ASSUMPTION (continued)

Using the Net Tax Due from the latest 2016 individual income tax data as our baseline, we find that Net Tax Due is equal to $5,512.291 million. When we reduce the individual rates, increase the tax brackets by 1.38% and include a 10% business income subtraction for 2019, we find the Net Tax Due is reduced to $5,386.297 million. Subtracting this figure from the baseline, we see this translates into a decrease in Net General Revenue of $125.994 million in 2019. When we reduce the individual rates, increase the tax brackets by another 1.38% and include a 15% business income subtraction for 2020, we find the Net Tax Due is reduced to $5,264.656 million. Subtracting this figure from the baseline, we see this translates into a decrease in Net General Revenue of $247.635 million in 2020. When we reduce the individual rates, increase the tax brackets by another 1.38% and include a 20% business income subtraction for 2021, we find the Net Tax Due is reduced to $5,142.820 million. Subtracting this figure from the baseline, we see this translates into a decrease in Net General Revenue of $369.471 million in 2021. When we reduce the individual rates, increase the tax brackets by another 1.38% and include a 25% business income subtraction for 2022, we find the Net Tax Due is reduced to $5,024.888 million (Table 5). Subtracting this figure from the baseline, we see this translates into a decrease in Net General Revenue of $487.403 million in 2022.

A re-estimated SB 509 using 2016 baseline data will decrease Net General Revenue by $125.994 million in 2019, $247.635 million in 2020, $369.471 million in 2021 and then $487.403 million in 2022. Figure 1 in the Summary section below summarizes these findings (page 11 of fiscal note).

SB 667 Parameters Used Within the Context of SB509: Beginning in 2018, this bill would reduce the top individual income tax rate by one-fifth of one percent each year as well as increase the business income subtraction by 10% each year the General Revenue trigger is met until it reaches 50%. The bracket inflation adjustment will be retained. The following tables reflect the changes in the Missouri individual income tax table each year until 2022 according to this legislation:

ASSUMPTION (continued)

2018 Tax Year:

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 4/5 % of excess over $9,253

2019 Tax Year:

If the Missouri taxable income is:	The tax is:
Not over $1,042 …	1/ ½ % of the Missouri taxable income
Over $1,042 but not over $2,084 …	$16 plus 2 % of excess over $1,042
Over $2,084 but not over $3,127 …	$36 plus 2 ½ % of excess over $2,084
Over $3,127 but not over $4,169 …	$63 plus 3 % of excess over $3,127
Over $4,169 but not over $5,211 …	$94 plus 3 ½ % of excess over $4,169
Over $5,211 but not over $6,253 …	$130 plus 4 % of excess over $5,211
Over $6,253 but not over $7,295 …	$172 plus 4 ½ % of excess over $6,253
Over $7,295 but not over $8,337 …	$219 plus 5 % of excess over $7,295
Over $8,337 but not over $9,381 …	$271 plus 5 ½ % of excess over $8,337
Over $9,381 …	$328 plus 5 3/5 % of excess over $9,381

2020 Tax Year:

If the Missouri taxable income is:	The tax is:
Not over $1,056 …	1/ ½ % of the Missouri taxable income
Over $1,056 but not over $2,113 …	$16 plus 2 % of excess over $1,056
Over $2,113 but not over $3,170 …	$37 plus 2 ½ % of excess over $2,113
Over $3,170 but not over $4,227 …	$63 plus 3 % of excess over $3,170
Over $4,227 but not over $5,283 …	$95 plus 3 ½ % of excess over $4,227
Over $5,283 but not over $6,339 …	$132 plus 4 % of excess over $5,283
Over $6,339 but not over $7,396 …	$174 plus 4 ½ % of excess over $6,339
Over $7,396 but not over $8,452 …	$222 plus 5 % of excess over $7,396
Over $8,452 …	$275 plus 5 2/5 % of excess over $8,452

ASSUMPTION (continued)

2021 Tax Year:

If the Missouri taxable income is:	The tax is:
Not over $1,071 …	1/ ½ % of the Missouri taxable income
Over $1,071 but not over $2,142 …	$16 plus 2 % of excess over $1,071
Over $2,142 but not over $3,214 …	$37 plus 2 ½ % of excess over $2,142
Over $3,214 but not over $4,285 …	$64 plus 3 % of excess over $3,214
Over $4,285 but not over $5,356 …	$96 plus 3 ½ % of excess over $4,285
Over $5,356 but not over $6,426 …	$134 plus 4 % of excess over $5,356
Over $6,426 but not over $7,498 …	$177 plus 4 ½ % of excess over $6,426
Over $7,498 but not over $8,569 …	$225 plus 5 % of excess over $7,498
Over $8,569 …	$278 plus 5 1/5 % of excess over $8,569

2022 Tax Year and Beyond:

If the Missouri taxable income is:	The tax is:
Not over $1,086 …	1/ ½ % of the Missouri taxable income
Over $1,086 but not over $2,172 …	$16 plus 2 % of excess over $1,086
Over $2,172 but not over $3,258 …	$38 plus 2 ½ % of excess over $2,172
Over $3,258 but not over $4,344 …	$65 plus 3 % of excess over $3,258
Over $4,344 but not over $5,430 …	$98 plus 3 ½ % of excess over $4,344
Over $5,430 but not over $6,515 …	$136 plus 4 % of excess over $5,430
Over $6,515 but not over $7,601 …	$179 plus 4 ½ % of excess over $6,515
Over $7,601 …	$228 plus 5 % of excess over $7,601

Using the Net Tax Due from the latest 2016 individual income tax data as our baseline, we find that Net Tax Due is equal to $5,512.291 million. When we reduce the individual rates per this legislation and include a 10% business income subtraction for 2018, we find the Net Tax Due is reduced to $5,394.538 million. Subtracting this figure from the baseline, we see this translates into a decrease in Net General Revenue of $117.753 million in 2018. When we reduce the individual rates per this legislation, increase the tax brackets by 1.38% and include a 20% business income subtraction for 2019, we find the Net Tax Due is reduced to $5,156.418 million. Subtracting this figure from the baseline, we see this translates into a decrease in Net General Revenue of $355.873 million in 2019. When we reduce the individual rates, increase the tax brackets by another 1.38% and include a 30% business income subtraction for 2020, we find the Net Tax Due is reduced to $4,926.249 million. Subtracting this figure from the baseline, we see this translates into a decrease in Net General Revenue of $586.042 million in 2020. When we reduce the individual rates, increase the tax brackets by another 1.38% and include a 40% business income subtraction for 2021, we find the Net Tax Due is reduced to $4,698.592 million. Subtracting this figure from the baseline, we see this translates into a decrease in Net General

ASSUMPTION (continued)

Revenue of $813.699 million in 2021. When we reduce the individual rates, increase the tax brackets by another 1.38% and include a 50% business income subtraction for 2022, we find the Net Tax Due is reduced to $4,482.301 million. Subtracting this figure from the baseline, we see this translates into a decrease in Net General Revenue of $1,029.990 million in 2022.

We estimate that the impact of SB 667 parameters within the context of SB 509 will decrease Net General Revenue by $117.753 million in 2018, $355.873 million in 2019, $586.042 million in 2020, $813.699 million in 2021 and then $1,029.990 million in 2022. Figure 2 on page 12 of fiscal note summarizes these findings.

Summary:

Figure 1: SB 509 Re-estimated Using 2016 Data
(Dollar figures are in millions)

Table	Year	Top Tax Rate	Net Tax Due	Change in Net General Revenue Relative to the Base Year
1	Baseline	5.9%	$5,512.291	$0
2	2019	5.8%	$5,386.297	($125.994)
3	2020	5.7%	$5,264.656	($247.635)
4	2021	5.6%	$5,142.820	($369.471)
5	2022	5.5%	$5,024.888	($487.403)

ASSUMPTION (continued)

Figure 2: SB667 Parameters Used Within the Context of SB509
(Dollar figures are in millions)

Table	Year	Top Tax Rate	Net Tax Due	Change in Net General Revenue Relative to the Base Year
6	2018	5.8%	$5,394.538	($117.753)
7	2019	5.6%	$5,156.418	($355.873)
8	2020	5.4%	$4,926.249	($586.042)
9	2021	5.2%	$4,698.592	($813.699)
10	2022	5%	$54,482.301	($1,029.990)

To reiterate, since the current law (SB 509) has yet to take effect until tax year 2017, the best estimate of the impact of this proposed bill entailed using its proposed changes in tax parameters to simulate its impact within the context of existing legislation (SB 509) on the current 2016 baseline and then subtracting a re-estimated impact of SB 509 using the current 2016 baseline data. Since we are unable to predict future net General Revenue levels that would trip the General Revenue growth trigger, we were restricted to estimate this request as a maximum impact estimate. As such, we assumed that the net General Revenue growth requirement was met every year thereby reducing the top individual income tax rate every year as well as increase the "business income" subtraction every year.

The estimated impact of this proposed bill is the reduction in Net General Revenue minus the reduction in Net General Revenue. The last column in Figure 3 displays this difference.

ASSUMPTION (continued)

Figure 3: Estimated Reduction in Net General Revenue Attributable to SB667 (Dollar figures are in millions)

Year	Top Tax Rate	Change in Net General Revenue of SB 667 Parameters in the Context of SB 509 Relative to the Base Year (Figure 2)	Change in Net General Revenue of a Re-Estimated SB 509 Relative to the Base Year (Figure 1)	Change in Net General Revenue attributable to SB 667 Relative to the Base Year (Figure 2 minus Figure 1)
2018	5.8%	($117.753)	$0	($117.753)
2019	5.6%	($355.873)	($125.994)	($229.879)
2020	5.4%	($586.042)	($247.635)	($338.407)
2021	5.2%	($813.699)	($369.471)	($444.228)
2022	5%	($1,029.990)	($487.403)	($542.587)

Conclusion: We estimate this proposed bill will decrease Net General Revenue by $117.753 million in 2018, $229.879 million in 2019, $338.407 million in 2020, $444.228 million in 2021, and $542.587 million in 2022.

Oversight notes the changes in this proposal would be effective beginning January 1, 2018, and the first income tax returns would be filed reflecting these changes in January, 2019 (FY 2019). Oversight is aware some filers would reduce their income tax withholding or their estimated tax payments in anticipation of a tax reduction, which is not accounted for in EPARC's estimate.

ASSUMPTION (continued)

Agency Estimates in Millions

Fiscal Year	B&P Estimate (p.4)	DOR Estimate (p.4)	EPARC Estimate (p.13)
FY 2019	($182.7)	($186.0)	($117.753)
FY 2020	($239.1)	($241.5)	($229.879)
FY 2021	($337.0)	($340.1)	($338.407)
FY 2022	($432.8)	($452.9)	($444.228)
FY 2023	($488.0)	($493.2)	($542.587)

Oversight has no way to test the estimates provided by B&P, DOR and EPARC; therefore, we will range the impact from low to high.

Oversight notes that the General Revenue growth trigger has been met for FY 2018. Oversight is not able to predict whether the General Revenue growth trigger would be met for any future year; however, for fiscal note purposes Oversight will assume the growth trigger is met each year. Oversight notes this could become fully implemented (General Revenue growth trigger met for five years in total) as soon as FY 2023 at which time the fiscal impact would be a loss of $542,587,000.

FISCAL IMPACT - State Government	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented (FY 2023)
GENERAL REVENUE				
Revenue Reduction				
Individual income tax changes §143.011* p. 14	($117,753,000) to ($186,066,000)	($229,879,000) to ($241,553,000)	($338,407,000) to ($340,147,000)	($488,000,000) to ($542,587,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE*	**($117,753,000) to ($186,066,000)**	**($229,879,000) to ($241,553,000)**	**($338,407,000) to ($340,147,000)**	**($488,000,000) to ($542,587,000)**

* This proposal would be implemented in five increments, dependent on increased General Revenue receipts. The proposal could be fully implemented as early as FY 2023.

FISCAL IMPACT - Local Government	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented (FY 2023)
	$0	**$0**	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses may increase the amount of business income that may be subtracted from the federal adjusted gross income.

FISCAL DESCRIPTION

Currently, the top rate of tax on personal income is being reduced over a period of years. Each year that a general revenue growth trigger is met, the top rate will be reduced by 0.1%, and the top rate will continue to be reduced until the it is lowered from 6% to 5.5%. This act increases the amount in which the top rate will be reduced. Each year the trigger is met, the top rate will be reduced by 0.2%. The top rate will continue to be reduced until it is lowered to 5%.

FISCAL DESCRIPTION (continued)

Currently, a business income deduction is being phased in over a period of years. Each year that a general revenue growth trigger is met, the deduction amount is increased by 5%. Once fully phased in, individual taxpayers may deduct up to 25% of their business income. This act increases the amount that may be deducted. Each year that the trigger is met, the deduction amount will be increased by 10%. Once fully phased in, individual taxpayers may deduct up to 50% of their business income.

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
  Division of Budget and Planning
University of Missouri's Economic and Policy Analysis Research Center

Ross Strope

Acting Director
January 18, 2018

JH:LR:OD