

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 6148-10  
Bill No.: Truly Agreed To and Finally Passed SCS for HCS for HB 2540  
Subject: Taxation and Revenue - Income  
Type: Original  
Date: June 28, 2018

---

Bill Summary: This proposal modifies laws relating to individual income taxes.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2023)
General Revenue	\$1,700,000	\$2,400,000	(\$3,300,000)	(\$5,800,000)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$1,700,000</b>	<b>\$2,400,000</b>	<b>(\$3,300,000)</b>	<b>(\$5,800,000)</b>

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

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 9 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>				
<b>FUND AFFECTED</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>Fully Implemented (FY 2023)</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>				
<b>FUND AFFECTED</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>Fully Implemented (FY 2023)</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>				
<b>FUND AFFECTED</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>Fully Implemented (FY 2023)</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### §143.011 Individual Income Tax Rate

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume that beginning with tax year 2019, this section would reduce the top rate by 0.4%. Beginning with tax year 2020, the top tax rate may be reduced by 0.1%, until five reductions have occurred since tax year 2017. B&P notes that the first 0.1% reduction occurred for tax year 2018, leaving four potential reductions under this proposal. B&P further notes, that if the trigger for SB 509 (2014) were met for tax year 2019, there would be three additional reductions allowed under this proposal. 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 2023.

The following table shows the top tax rate under SB 509 (2014) and this proposal.

Tax Year	SB 509	Proposal
2018	5.9%	
2019	5.8%	5.4%
2020	5.7%	5.3%
2021	5.6%	5.2%
2022	5.5%	5.1%

Officials at the **Department of Revenue (DOR)** assume that beginning in the 2019 calendar year, this act provides that the top rate of tax shall be eliminated, with a top remaining tax rate reduced to 5.4% for all taxable income over \$8,000 (Any rate reductions from 509 would continue to be enacted.) Every resident having a taxable income shall determine his or her tax from a tax table prescribed by the director of revenue and based upon the rates provided in Section 143.011. The director shall publish such tax table on or before the October first that immediately precedes the calendar year for which the tax table shall apply.

ASSUMPTION (continued)

§143.022 Business Pass-Through Deduction

Officials at the **B&P** assume §143.022 would limit the pass-through business exemption to the 20% 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. B&P further notes that while the pass-through exemption could have begun as early as tax year 2017, net general revenue growth was not sufficient to meet the trigger required for the first phase-in. For the purpose of this fiscal note, B&P assumes that each pass-through business exemption trigger is met in consecutive years.

Officials at the **DOR** assume this proposed section eliminates the final increase in the deduction a pass through entity may deduct from their income, keeping it at 20% in FY 2021. Currently, a pass-through entity can deduct 5% from its 2018 Missouri taxable income. The amount of the deduction was set to increase 5% each year if certain net general revenue limits are met up to a maximum 25% deduction.

§143.151 and §143.161 Individual Deductions

Officials at the **B&P** assume these sections state that individuals may only claim the personal exemption, low-income deduction, and dependent deduction as long as the exemption as defined by federal law is not equal to zero. B&P notes that part of the federal tax reform that began January 1, 2018 placed the personal and dependent exemptions equal to zero until tax year 2025. B&P further notes that the Missouri deductions were eliminated once the federal tax reform was enacted on January 1, 2018. Therefore, B&P estimates that these provisions will not impact Total State Revenue or General Revenue.

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.

ASSUMPTION (continued)

§143.171 Individual Federal Income Tax Deduction

Officials at the **B&P** assume this section would phase out the amount of federal taxes an individual may claim based on their federal taxable income. The following table shows the phase-out of the federal income tax deduction.

Federal Taxable Income		FIT Deduction Allowed
Min.	Max	
\$0	\$25,000	35%
\$25,001	\$50,000	25%
\$50,001	\$100,000	15%
\$100,001	\$125,000	5%

Officials at the **DOR** assume this proposed section allows, for all tax years beginning on or after January 1, 1994, an individual taxpayer shall be allowed a deduction for the taxpayer's federal income tax liability under Chapter 1 of the Internal Revenue Code for the same tax year for which the Missouri return is being filed, after reduction for all credits thereon, except the credit for payments of federal estimated tax, the credit for the overpayment of any federal tax, and the credits allowed by the Internal Revenue Code by Section 31 (tax withheld on wages), Section 27 (tax of foreign country and United States possessions), and Section 34 (tax on certain uses of gasoline, special fuels, and lubricating oils). For tax years beginning on or after September 1, 1993, but ending before January 1, 2019, the amount of the deduction shall not exceed five thousand dollars on a single taxpayer's return or ten thousand dollars on a combined return. For tax years beginning on or after January 1, 2019, the amount of the deduction shall be the sum of the following amounts:

If the federal taxable income is:	The deduction is:
Not over \$25,000.00	35% of the federal tax liability
Over \$25,000 but not over \$50,000	25% of the federal tax liability
Over \$50,000 but not over \$100,000	10% of the federal tax liability
Over \$100,000 but not over \$125,000	5% of the federal tax liability
Over \$125,000	No deduction for the federal tax liability

ASSUMPTION (continued)

B&P Summary

Officials at the **B&P** assume that using 2015 tax year data, the most recent complete year available, and combining the individual income tax changes in Sections 143.011, 143.022, and 143.171, B&P estimates that this provision will increase Total State Revenue and General Revenue by \$1.7 million in FY 2019 and decrease Total State Revenue and General Revenue by (\$5.8 million) once fully implemented (FY 2023).

The following table shows the estimated impact by fiscal year.

Fiscal Year	General Revenue Impact
FY 2019	\$1.7
FY 2020	\$2.4
FY 2021	(\$3.3)
FY 2022	(\$7.1)
FY 2023	(\$5.8)

DOR Summary

figures in millions

Total State Revenue					
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
<b>§143.011</b> -Individual Income Tax Rate changes					
<b>§143.021</b> -Tax Rate changes due to inflation	\$1.7	\$2.4	(\$3.3)	(\$7.1)	(\$5.8)
<b>§143.171</b> - Individual Federal Income Tax Deduction based on Federal Tax Income					
<b>Total State Revenue</b>	\$1.7	\$2.4	(\$3.3)	(\$7.1)	(\$5.8)

ASSUMPTION (continued)

Officials at the Department of Elementary and Secondary Education did not respond to **Oversight's** request for fiscal impact.

**Oversight** notes that the Outstanding Schools Trust Fund established in §160.500 receives funding from the corporate tax rate in §143.071, from the amount of federal income tax deduction in §143.171 and from General Revenue. The Outstanding Schools Trust Fund is used to support the Foundation Formula and is budgeted to receive \$836 million in FY 2019. Oversight considers how the money is divided among the funding sources to be a secondary impact of this proposal and will not reflect it in the fiscal note.

<u>FISCAL IMPACT -</u> <u>State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented (FY 2023)
<b>GENERAL REVENUE</b>				
Revenue - changes to individual income tax §143.011 & 143.171	<u>\$1,700,000</u>	<u>\$2,400,000</u>	<u>(\$3,300,000)</u>	<u>(\$5,800,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>\$1,700,000</u></b>	<b><u>\$2,400,000</u></b>	<b><u>(\$3,300,000)</u></b>	<b><u>(\$5,800,000)</u></b>

<u>FISCAL IMPACT -</u> <u>Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented (FY 2023)
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT - Small Business

Small businesses may be impacted by the business pass-through deduction.

## FISCAL DESCRIPTION

This bill makes changes to the state individual income tax.

**INCOME TAX** - Currently, the law provides for a reduction in the top rate of income tax over a period of years from 6% to 5.5%, with each cut becoming effective if net general revenue collections meet a certain trigger. In addition to such reductions, beginning in the calendar year 2019, this bill provides that the top rate of tax shall be reduced by 0.4%.

The bill 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 (§143.011).

**BUSINESS PASS-THROUGH INCOME DEDUCTION** - Currently, a pass-through entity can deduct 5% from its 2017 Missouri taxable income. The amount of the deduction will increase 5% each year certain net general revenue limits are met up to a maximum 25% deduction. This bill changes the maximum deduction from 25% to 20% (§143.022).

**PERSONAL & DEPENDENCY EXEMPTIONS** - Currently, an individual can deduct \$2,100 as a personal exemption, \$2,100 for a spouse, and \$1,200 for each dependent. This bill provides that Missouri personal and dependency exemptions are not allowed if the federal exemption amount is zero (§143.151 and §143.161).

**FEDERAL TAX DEDUCTION** - Currently, an individual can deduct his or her federal income tax liability up to \$5,000 or if a combined return, up to \$10,000. Beginning January 1, 2019, this bill phases out this deduction for individuals based on federal taxable income limits (§143.171).

This bill shall become effective on January 1, 2019.

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



L.R. No. 6148-10  
Bill No. Truly Agreed To and Finally Passed SCS for HCS for HB 2540  
Page 9 of 9  
June 28, 2018

SOURCES OF INFORMATION

Department of Revenue  
Office of Administration  
Division of Budget and Planning

Ross Strope

A handwritten signature in black ink, appearing to read "Ross Strope", with a stylized flourish at the end.

Acting Director  
June 28, 2018