COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0111-02
Bill No.: SCS for SB 52
Subject: Taxation and Revenue - Income; Taxation and Revenue - Sales and Use; Cities, Towns and Villages; Counties
Type: Original
Date: March 4, 2019

Bill Summary: This proposal modifies several provisions relating to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2023)
General Revenue	Unknown to (Unknown) or $104,493,265	Unknown to (Unknown) or ($96,462,230)	Unknown to (Unknown) or ($96,563,495)	Unknown to (Unknown) or ($98,264,775)
Total Estimated Net Effect on General Revenue	**Unknown to (Unknown) or $104,493,265**	**Unknown to (Unknown) or ($96,462,230)**	**Unknown to (Unknown) or ($96,563,495)**	**Unknown to (Unknown) or ($98,264,775)**

*** Oversight assumes a positive unknown to negative unknown for revenue estimates until we are able to estimate revenue or verify the data and models provided. Oversight will also reflect B&P's revenue estimates for the changes to the tax rates.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 22 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2023)
State Road Bond	$61,500,000	$122,900,000	$122,900,000	$122,900,000
State Road Fund	$44,900,000	$89,700,000	$89,700,000	$89,700,000
State Transportation	$1,300,000	$2,500,000	$2,500,000	$2,500,000
Total Estimated Net Effect on Other State Funds	**$107,700,000**	**$215,100,000**	**$215,100,000**	**$215,100,000**

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	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 2020	FY 2021	FY 2022	Fully Implemented (FY 2023)
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 2020	FY 2021	FY 2022	Fully Implemented (FY 2023)
Local Government	**$15,400,000**	**$30,700,000**	**$30,700,000**	**$30,700,000**

FISCAL ANALYSIS

ASSUMPTION

INDIVIDUAL SECTION CALCULATIONS

§32.087 Local Sales Tax Rate Cap

Officials at the **Office of Administration Division of Budget and Planning** (**B&P**) and the **Department of Revenue** (**DOR**) assume this section would place a cap on the total local sales tax rate for any given jurisdiction. Beginning January 1, 2020, local jurisdictions may not have a combined local sales tax rate greater than 8.775%. Any local jurisdiction with a combined sales tax rate greater than the cap will not be required to lower their sales tax rate. B&P & DOR notes that there are currently no jurisdictions at or exceeding the 8.775% sales tax cap. There are currently 26 local jurisdictions, all located within St. Louis, which have a combined local sales tax rate of 7.45%.

Officials at the **City of St. Louis** assume the proposed legislation would place a cap on the total combined rate of sales taxes for any given taxing jurisdiction of 7.275% beginning January 1, 2020. The proposed legislation does contain a provision exempting those jurisdictions with rates higher than the cap from having to reduce or repeal any such taxes. The current combined sales tax rate in the City of St. Louis (excluding the School Board which is a separate taxing jurisdiction) is 9.013%. Thus the proposed legislation would cap the rate for the City of St. Louis at the current level. While the provision allowing for the retention of current rates would therefore not trigger a rate reduction or loss in revenue, it would limit the discretionary authority of the City in decisions regarding revenue structure and options in the future.

Officials at the **City of Kansas City** assume this proposal would have a negative fiscal impact on the City, because the City currently has a combined local sales tax rate (City and County only) ranging from 4.00% - 4.75% across the four counties in which the City is situated. The bill appears to exempt transient guest taxes, but KCMO's transient guest tax is housed in its Convention and Tourism C&T tax authorized by §92.327. The C&T tax contains a 7. 5% tax on hotel rooms and a 2% restaurant tax on prepared food. If the bill exempts only the transient guest side of the C&T tax, then the 2% food tax could arguably be captured by the cap. Additionally, if this legislation intends to capture special taxing jurisdictions (e.g. TDDs and CIDs) then that would remove an additional 1.0-2.0% from the available cap.

Kansas City's highest overlapping local sales tax rate is 13.60% when the C&T Food tax is included. Taking out the State portion, Kansas City is already above the cap (at 9.375%). No additional sales taxes could be voted on in Kansas City or imposed for any special taxing district. Future renewals would not be allowed to be presented to voters. Each ½ cent sales tax represents about $42 million in revenue for the City. This revenue is dedicated to particular programs and services and would have to be replaced in some other way. Kansas City is unable

<u>ASSUMPTION</u> (continued)

to fully estimate the impact of a sales tax cap. However, we assume sales taxes which are set to expire after 2020, would be at risk for renewal.

Other concerns of Kansas City include:

- Specific to KCMO, most if not all tax levels (under the state level) that overlap with KCMO jurisdictional limits have some grants of authority relative to taxation that have not been utilized/subjected to voter authorization; there is available capacity bestowed by the Legislature.
- Under this legislation a resident of one county voting on a Kansas City issue would have his or her ballot choices dictated to them due to an unrelated voter decision made by a voter in another county and vice versa, simply because both residents live in KCMO. By way of example, a Cass County voter voting on a Cass County tax increase, would drive the tax policy of the rest of Kansas City.
- If the bill intends for this tax to apply to special taxing jurisdictions like TDDs and CIDs, then voters within a particular district could influence the tax policy of an entire county by simply being first to the ballot and occupying some of the available capacity.

Officials at the **City of Liberty** assume this proposal could cause the City to lose $ 6.5 million in annual revenues currently dedicated to road improvements and street maintenance starting in 2030. Currently the maximum local tax within Liberty is 10.850% at one retail development area. This tax rate is comprised by the sales taxes of seven difference jurisdictions as follows: State - 4.225% -- Clay County - 1.125% -- Zoo District - 0.125% -- CID - 1.000% -- TDD - 1.00% -- City of Liberty - 3.375%. As we understand subsection (2), this would cause our local rate to be over the 8.775% in the future.

Liberty's 3.375% rate is comprised as follows: General - 1.000% -- Public Safety -0.500% -- Parks - 0.250% -- Fire - 0.250% -- Economic Development - 0.375% -- Capital - 0.500% -- Transportation - 0.500%. The General, Public Safety, Parks and Fire sales taxes have been approved to permanent taxes and account of 2.000% of our total local sales tax rate. The Capital and Transportation Sales Taxes sunset in 2030 and the Economic Development Sales Tax sunsets in 2032. Combined these three sales tax account for 1.375% of our total local sales tax rate.

The permanent taxes are operational support taxes forming a core funding level for the City. The Capital, Transportation and Economic Development sales taxes have been approved by Liberty voters to make road improvements and provide for street maintenance. Collectively, the three infrastructure focused sales taxes generate $6.5 million in annual revenues and support both debt service costs and pay-as-you-go project funding. If this proposal was passed with the above

ASSUMPTION (continued)

provisions without any carve out for CID and TID jurisdictions sales tax rates, the maximum local rate for Clay County, Zoo District and City of Liberty would be required to be 8.775%.

Liberty believes the State, County and Zoo District are also permanent taxes. Based on our reading of subsection (3) permanent taxes can be maintained. This would establish a sale tax base of 7.475% (State - 4.225% + County - 1.125% + Zoo District - 0.125% - City - 2.000%). We know the 1% CID and 1% TDD taxes have authorizations that will take them past 2030 and 2032. With this additional 2% of taxation, Liberty would now be at 9.475% and be over the maximum 8.775%. The impact would be that we could not seek voter approval on any taxes that sunset and we would lose our ability to fund road maintenance or improve our local road systems.

Oversight will not show an impact from the cap on the combined local sales tax rate of 8.775% as no jurisdictions have a local rate higher than 8.775%. Oversight also assumes transient guest taxes are not to be included in this calculation. As shown above by St. Louis, Kansas City and Liberty they only exceed the 8.775% when combined with the state rate. This bill does not include the state rate when calculating the local rate at 8.775%. Should the state rate be included in the local rate then these cities would exceed the local rate and would not be able to renew their tax in the future.

§143.011 Individual Income Tax Rate Reduction
Oversight notes the current projected Individual Income Tax Rate is calculated with SB 509 (2014) and HB 2540 (2018) as follows:
TY 2018 it was 5.9% (.1% reduction from SB 509)
TY 2019 it is 5.4% (.1% reduction from SB 509 + .4% reduction from HB 2540)
TY 2020 will be 5.3% (.1% reduction from SB 509)
TY 2021 will be 5.2% (.1% reduction from SB 509)
TY 2022 will be 5.1% (last .1% reduction from SB 509)

Officials at the **B&P** assume this section would reduce the top individual income tax rate by 1.55% beginning with tax year 2020. For the purpose of this fiscal note, B&P will assume that the income tax rate reductions and business income exemptions scheduled to occur under current law happen in concurrent years from tax year 2018 through tax year 2022. Based on tax year 2016 data, the most recent complete tax year available, B&P estimates that a 1.55% reduction in the top income tax rate will reduce Total State Revenue and General Revenue by $1.50 billion once fully implemented in FY 2022. The following table shows the estimated impact by tax year.

ASSUMPTION (continued)

Table 1- Income Tax Rate Reduction by Tax Year (Figures in Millions)

Tax Year	Current Tax Rate	Proposed Tax Rate	Impact to GR
2020	5.3%	3.75%	($1,494.2)
2021	5.2%	3.65%	($1,492.3)
2022	5.1%	3.55%	($1,495.3)

Since the rate reduction is scheduled to begin January 1, 2020, taxpayers would adjust their withholdings and declarations beginning January 2020. Therefore, B&P estimates that this proposal would reduce Total State Revenue and General Revenue by $627.6 million in FY 2020. Once fully implemented in FY 2023, B&P estimates that this provision will reduce Total State Revenue and General Revenue by $1.50 billion annually. The following table shows the estimated impact by fiscal year.

Table 2 - Income Tax Rate Reduction by Fiscal Year (Figures in Millions)

Tax Year	Impact to GR
2020	($627.6)
2021	($1,493.5)
2022	($1,493.6)
2023	($1,495.3)

Oversight notes that B&P uses a 42% in first fiscal year and 58% split in the second year to convert the income tax numbers from tax year to fiscal year.

Officials at the **DOR** assume this proposed section would add an additional rate reduction of 1.55% to the top rate of tax beginning with the 2020 calendar year. Based on the Department's income tax model created by using confidential taxpayer information, the Department estimates the following impacts to General Revenue:

Impact to General Revenue			
FY 2020	FY 2021	FY 2022	FY 2023
($624,645,902)	($1,486,193,694)	($1,485,976,150)	($1,478,694,234)

ASSUMPTION (continued)

Oversight will show B&P's estimates in the fiscal note.

Oversight notes that it **does not currently have the resources and/or access to state tax data** to produce an independent revenue estimate and is unable to verify the revenue estimates provided by B&P and DOR.

Oversight assumes a positive unknown to negative unknown for revenue estimates until we are able to estimate revenue or verify the data and models provided. Oversight will also reflect B&P's revenue estimates.

Officials at the **University of Missouri's Economic and Policy Analysis Research Center** (**EPARC**) assume that although there are many changes to statutes encompassed in this bill, they will be restricting their analysis to the portions of this bill that pertain to individual income tax. If enacted, this bill will reduce the top tax rate by one and fifty-five hundredths percent as well as enact the Missouri Working Family Tax Credit, a non-refundable credit equivalent to 20% of a Missouri filer's federal earned income tax credit.

The baseline below reflects the Missouri tax brackets and rates as they will be in 2019. The simulation below reflects the proposed Missouri individual income tax brackets in this bill.

Baseline

If the Missouri taxable income is:	The tax is:
Not over $1,053 …	1 ½ % of the Missouri taxable income
Over $1,053 but not over $2,106 …	$16 plus 2 % of excess over $1,053
Over $2,106 but not over $3,159 …	$37 plus 2 ½ % of excess over $2,106
Over $3,159 but not over $4,212 …	$63 plus 3 % of excess over $3,159
Over $4,212 but not over $5,265 …	$95 plus 3 ½ % of excess over $4,212
Over $5,265 but not over $6,317 …	$132 plus 4 % of excess over $5,265
Over $6,317 but not over $7,370 …	$174 plus 4 ½ % of excess over $6,317
Over $7,370 but not over $8,423 …	$221 plus 5 % of excess over $7,370
Over $8,423 …	$274 plus 5.4 % of excess over $8,423

ASSUMPTION (continued)

Simulation

If the Missouri taxable income is:	The tax is:
Not over $1,053 …	1 ½ % of the Missouri taxable income
Over $1,053 but not over $2,106 …	$16 plus 2 % of excess over $1,053
Over $2,106 but not over $3,159 …	$37 plus 2 ½ % of excess over $2,106
Over $3,159 but not over $4,212 …	$63 plus 3 % of excess over $3,159
Over $4,212 but not over $5,265 …	$95 plus 3 ½ % of excess over $4,212
Over $5,265 …	$132 plus 3.85 % of excess over $5,265

The report shows the baseline for our analysis where Net Tax Due is $5,680.602 million. The simulation report shows results of reducing the top individual income tax rate to 3.85% only as Net Tax Due equals $4,130.920 million. This is a decrease in Net Tax Due of $1,549.682 million from the baseline. Therefore, this corresponds to a decrease in Net General Revenue of $1,549.682 million from reducing the top individual income tax rate to 3.85% only.

Officials at the **City of St. Louis** assume this would decrease the state income tax rate by 1.55% and increase the base state sales tax from 4% to 6%. This shift in taxation may have an indeterminate negative impact on the entertainment and tourism industry which are more sensitive to price considerations subject to the sales tax.

§143.177 Missouri Earned Income Tax Credit (EITC)
Officials at the **B&P** assume this section creates a non-refundable MO working family tax credit equal to 20% of the federal EITC, beginning with tax year 2020. Using tax year 2016 data, the most recent year available, B&P estimates that a non-refundable tax credit will reduce Total State Revenue and General Revenue by $42.3 million in FY 2021. Once fully implemented, the credit would reduce Total State Revenue and General Revenue by $41.8 million annually, beginning in FY 2023.

Officials at the **EPARC** included the Missouri Working Family Tax Credit, a non-refundable credit equivalent to 20% of a Missouri filer's federal earned income tax credit to the above simulation. The report shows Net Tax Due equals $4,090.475 million. This is a decrease in Net Tax Due of $1,590.127 million from the baseline. Therefore, this corresponds to a decrease in Net General Revenue of $1,590.127 million in total (for both the rate reduction and EITC).

Officials at the **DOR** assume This proposed section shall be known and may be cited as the "Missouri Working Family Tax Credit". For all tax years beginning on or after January 1, 2020, an eligible taxpayer shall be allowed a tax credit in the amount equal to 20% of the amount of credit the taxpayer would receive under the federal earned income tax credit. The tax credit

ASSUMPTION (continued)

allowed by this section shall be claimed by the taxpayer at the time the taxpayer files a return and shall be applied against the income tax liability imposed by Chapter 143 after reduction for all other credits allowed thereon. This would be a non-refundable credit and cannot be carried forward to any subsequent tax years.

The Department shall determine whether any taxpayer filing a report or return with the Department who did not apply for the credit authorized under this section may qualify for the credit and shall notify the taxpayer of his or her potential eligibility. In making a determination of eligibility under this section, the Department shall use any appropriate and available data including, but not limited to, data available from the Internal Revenue Service, the U.S. Department of Treasury, and state income tax returns from previous years.

The Department shall prepare an annual report containing statistical information regarding the tax credits issued under this section for the previous tax year, including the total amount of revenue expended on the earned income tax credit, the number of credits claimed, and the average value of the credits issued to taxpayers whose earned income falls within various income ranges determined by the Department.

Based on internal data provided by the Federal Government, the Department estimates state revenues may decrease $67.2 million each year an EITC is administered.

Oversight will show DOR's estimate in the fiscal note.

Oversight notes the changes in this proposal would be effective beginning January 1, 2020, and the first income tax returns would be filed reflecting these changes in January, 2021 (FY 2021). For fiscal note purposes, Oversight would include the revenue reductions in the year in which the affected tax returns would be filed; therefore, the first year this proposal would have an impact would be FY 2021.

Officials at the **Joint Committee on Administrative Rules** (**JCAR**) assume this proposal is not anticipated to cause a fiscal impact beyond current appropriations.

Oversight assumes JCAR will be able to administer any rules resulting from this proposal with existing resources.

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain

ASSUMPTION (continued)

amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could require additional resources.

§144.020 Sales Tax Rate Increase
Officials at the **B&P** assume the General Revenue Sales Tax would increase the state sales tax rate from 4% (3% to General Revenue and 1% to education funding) to 6%, beginning January 1, 2020. For the purpose of this fiscal note, B&P assumes that the additional 2% would be deposited into General Revenue bringing the total General Revenue sales tax rate to 5%. In addition, B&P assumes that the General Revenue sales tax exemption on food would also apply to this additional 2% tax.

Based on FY 2018 General Revenue (3%) sales tax collections of $2.20 billion, B&P estimates that this provision would increase Total State Revenue and General Revenue by $732.2 million in FY 2020. Once fully implemented in FY 2021, B&P estimates that this provision will increase Total State Revenue and General Revenue by $1.46 billion annually.

The MV Sales Tax would also increase the state sales tax on motor vehicles, trailers, boats, and outboard motors from 4% (3% to various state and local road funds and 1% to education funding) to 6%, beginning January 1, 2020. For the purpose of this fiscal note, B&P assumes that the additional 2% would be deposited into the various state and local road funds, bringing the total rate to 5%.

B&P notes that the current 3% tax is divided between four separate road funds, with 50% of the revenue going to the State Road Bond Fund, 36.5% going to the State Road Fund, 1% going to the State Transportation Fund, and 12.5% going to the Fuel Local Deposit (FLOYD) fund (which is distributed between cities and counties).

ASSUMPTION (continued)

Based on FY 2018 road fund (3%) collections of $368.6 million, B&P estimates that this will increase Total State Revenue by $107.6 million in FY 2020. Once fully implemented in FY 2021, B&P estimates that this provision will increase Total State Revenue by $215.1 million. In addition, B&P estimates that this provision will increase local funds by $30.7 million once fully implemented.

Officials at the **DOR** assume this proposed section would increase the amount of sales tax imposed by 2%. Currently, Section 144.020 imposes a sales tax at a rate of 4%. Disposition of the tax is 3% to the General Revenue Fund and 1% to the School District Trust Fund (education) authorized in Section 144.701.

Article IV of the Missouri Constitution authorizes an additional state sales and use tax to be deposited into the Conservation Commission Fund (conservation) in the amount of 0.125% and the Parks State Sales Tax Fund (parks, soils, and water) in the amount of 0.1%. With the constitutionally imposed sales taxes, this will result in a total statewide sales tax rate of 6.225% under this proposal.

Since the proposed legislation does not indicate specific disposition of the 2% increase, the Department assumes the revenues generated will go to the General Revenue Fund.

If the sales tax rate was raised from 4.225% to 6.225% (with the additional 2% going to General Revenue), the Department estimates a positive impact on General Revenue in the amount of $1,528,659,980.

In calendar year 2017, total taxable sales reported were $77,195,302,637. Using the current allocation of funds, $2,315,666,091 (3%) was deposited to General Revenue.

If the sales tax rate increased from 4.225% to 6.225% with the additional 2% going to General Revenue, the new amount deposited into general revenue would be as follows:

5% General Revenue	$3,844,326,071 - $2,315,666,091 = $1,528,659,980

The Department subtracted the amount of general revenue collected at 3% from the amount collected at 5% to get the impact to General Revenue.

DOR's Personal Tax Section will require one Revenue Processing Technician I ($24,360) for every 14,700 errors created and one Revenue Processing Technician I ($24,360) for every 5,700 pieces of correspondence generated and one temporary employee ($8,164) for new line item.

ASSUMPTION (continued)

Additionally, they will need one Management Analysis Specialist I ($38,304) to handle the reporting requirements. This legislation will require form and programming changes.

In summary, DOR assumes the need for three FTE plus one temporary employee, **Oversight** will show that need for the DOR FTE in the fiscal note.

DOR assumes §144.020.9 raises the previous four percent tax on the purchase price of new and used motor vehicles, trailers, boats, and outboard motors to six percent. In FY 2018, Missouri collected $368,581,523 in motor vehicle sales taxes at the current three percent rate. Total vehicle sales in FY 2018 were $12,286,050,767. When the Department multiplies total vehicle sales by the new six percent rate Missouri may collect an estimated $614,302,538 increasing collections by an estimated $245,721,015.

This is a tax on the purchase of any new or used motor vehicle or trailer. Pursuant to Section 144.455, disposition of the tax is 50 percent to the State Road Bond Fund - 319 and 50 percent to funds dedicated for highway and transportation use. These highway and transportation funds are the State Road Fund - 320 (36.5%), the State Transportation Fund - 675 (1%), and the Fuel Local Deposit (FLOYD) (12.5%). The FLOYD Fund distributes its portion to cities and counties.

Motor Vehicle			FY 2020	FY 2021
Total collections in FY 2018	$368,581,523	State Road Bond Fund	$61,430,254	$122,860,508
Total Vehicle Sales in FY 2018	$12,286,050,767	State Road Fund	$44,844,085	$89,688,171
Projected Collections with 2% Increase	$614,302,538	State Transportation Fund	$1,228,605	$2,457,210
Total Impact	$245,721,015	FLOYD (Local)	$15,357,563	$30,715,127

Oversight will use the projection estimated by B&P for the fiscal note.

Officials at the **Department of Natural Resources (DNR)** assume the Department's Parks and Soils Sales Tax Funds are derived from one-tenth of one percent sales and use tax pursuant to Article IV Section 47(a) of the Missouri Constitution. Any increase in sales tax collected could increase revenue to the Parks and Soils Sales Tax Funds. DNR assumes any increase in revenue to the Parks and Soils Sales Tax fund would be used for the purposes established in Article IV Section 47(a) of the Missouri Constitution.

ASSUMPTION (continued)

The Department assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Officials at the **Department of Conservation (MDC)** assume an unknown fiscal impact but greater than $100,000. The Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax pursuant to Article IV Section 43 (a) of the Missouri Constitution. Any increase in sales and use tax collected would increase revenue to the Conservation Sales Tax funds. However, the initiative is very complex and may require adjustments to Missouri sales tax law which could cause some downside risk to the Conservation Sales Tax. MDC assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Oversight notes the proposal would not affect either tax base or the tax rate of the constitutional taxes (absent any decreases in sales due to marginal propensities to consume); therefore, this proposal should not affect DNR or MDC sales tax funds.

In response to the previous version, officials at the **Missouri Department of Transportation** deferred to Department of Revenue for fiscal impact.

In response to the previous version, officials at the **City of Springfield** assumed a potential positive fiscal impact to the City of more than $100,000.

In response to the previous version of this proposal, officials at the **Springfield Public School District** assumed the changes in this proposal would impact general statewide revenue. However, they are not able to calculate the impact to the district.

In response to the previous version of this bill, officials at the **Kirksville R-III School District** and the **Wellsville-Middleton R-I School District** each assumed that if taxes are deferred or suspended it would have a negative fiscal impact on the district.

In response to the previous version of this bill, officials at the **Jackson County Board of Election Commissioners**, the **St. Louis County Board of Election Commissioners**, the **Metropolitan Zoological Park and Museum District** each assumed there is no fiscal impact from this proposal.

In response to the previous version of this bill, officials at the **Francis Howell School District** assumed that since they don’t collect the tax they are unable to opine on the fiscal impact.

ASSUMPTION (continued)

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other cities, counties and school district were requested to respond to this proposed legislation but did not. For a general listing of political subdivisions included in our database, please refer to www.legislativeoversight.mo.gov.

COMBINED RESULTS

Officials at the **EPARC** assume that if this bill were enacted, we would expect Net General Revenue to decrease by $1,590.127 million due to reducing the top individual income tax rate to 3.85% and enacting the Missouri Working Family Tax Credit, a non-refundable credit equivalent to 20% of a Missouri filer's federal earned income tax credit.

Officials at the **DOR** assume the following summary of impact:

	Summary of Impact			
	FY 2020	FY 2021	FY 2022	FY 2023
Income Tax Changes	($624,645,902)	($1,486,193,694)	($1,485,976,150)	($1,487,694,234)
EITC	$0	($67,200,000)	($67,200,000)	($67,200,000)
Sales Tax Increase	$764,329,990	$1,528,659,980	$1,528,659,980	$1,528,659,980
Motor Vehicle Sales Tax Increase	$122,860,508	$245,721,015	$245,721,015	$245,721,015
Total Impact	$262,544,596	$220,987,301	$221,204,845	$219,486,761

B&P estimates that this proposal will increase Total State Revenue by $212.3 million and General Revenue by $104.6 million in FY 2020. Once fully implemented in FY 2023, B&P estimates that this proposal will increase Total State Revenue by $142.4.0 million while decreasing General Revenue by $72.7 million. The following table shows the estimated impacts by fiscal year.

ASSUMPTION (continued)

Table 3: **B&P's** Summary of Proposed Impacts by Fiscal Year - (Figures in Millions)

Proposal	FY 2020	FY 2021	FY 2022	FY 2023
General Revenue				
Individual Income Tax Rate	($627.6)	($1,493.5)	($1,493.6)	($1,495.3)
MO Working Family Tax Credit	$0	($42.3)	($41.9)	($41.8)
Sales Tax Rate Increase	$732.2	$1,464.4	$1,464.4	$1,464.4
TOTAL General Revenue Impact	**$104.6**	**($71.4)**	**($71.1)**	**($72.7)**
Other Funds (MV Sales Tax Rate)				
State Road Bond Fund	$61.5	$122.9	$122.9	$122.9
State Road Fund	$44.9	$89.7	$89.7	$89.7
State Transportation Fund	$1.3	$2.5	$2.5	$2.5
Total State Revenue Impact	$212.3	$143.7	$144.0	$142.4
Local Impact				
Fuel Local Deposit (FLOYD)	$15.4	$30.7	$30.7	$30.7

This proposal will impact the calculation under Article X, Section 18(e). B&P notes that the net increase in Total State Revenue by this proposal exceeds the limit to revenue growth set forth by Article X, Section 18(e). The limit for the 2019 session is $105.0 million.

Oversight currently does not have the data or resources available to produce independent revenue projections, therefore Oversight uses the same assumptions for revenue growth as the FY 2020 Consensus Revenue Estimate (CRE) for revenue growth in all future years. The CRE assumes an increase in net general revenue collections of $192.6 million for FY 2020.

Oversight notes pursuant to §143.011 - §143.022 (SBs 509 & 496 2014) if the previous fiscal year's net general revenue collections exceed the highest net general revenue collections of the

ASSUMPTION (continued)

three previous fiscal years by at least $150 million, then there will be a reduction in the individual income tax rate by one-tenth of a percent and a reduction for individual income tax filers of 5% of "business income." These reductions will reduce net General Revenue collections by an estimated $160.0 million annually. Oversight notes the proposed legislation may impact future net revenue collections and could impact future triggering of the rate reductions required under §143.011 - §143.022.

Oversight notes that it **does not currently have the resources and/or access to state tax data** to produce an independent revenue estimate and is unable to verify the revenue estimates provided by B&P and DOR.

Oversight assumes a positive unknown to negative unknown for revenue estimates until we are able to estimate revenue or verify the data and models provided. Oversight will also reflect B&P and DOR's revenue estimates.

FISCAL IMPACT - State Government	FY 2020 (6 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
GENERAL REVENUE				
Revenue Reduction - DOR - §143.011 reduction in individual income tax rate *	($627,600,000)	($1,493,500,000)	($1,493,600,000)	($1,495,300,000)
Revenue Reduction - DOR - §143.177 creation of the MO Earned Income Tax Credit	$0	($67,200,000)	($67,200,000)	($67,200,000)
Additional Revenue DOR - §144.020 a 2% sales tax increase	$732,200,000	$1,464,400,000	$1,464,400,000	$1,464,400,000
Cost - §144.020 RPT-2, MAS-1				
Personal Service	($43,512)	($87,894)	($88,773)	($89,661)
Fringe Benefits	($32,176)	($64,617)	($64,885)	($65,156)
Equip & Exp	($22,883)	($1,473)	($1,509)	($1,547)
Total Cost -	($98,571)	($153,984)	($155,167)	($156,364)
FTE Change	3 FTE	3 FTE	3 FTE	3 FTE
Cost - DOR §144.020 temporary employee	($8,164)	($8,246)	($8,328)	($8,411)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$104,493,265**	**($96,462,230)**	**($96,563,495)**	**($98,264,775)**
Estimated FTE Change on General Revenue	3 FTE	3 FTE	3 FTE	3 FTE

*** Oversight assumes a positive unknown to negative unknown for revenue estimates until we are able to estimate revenue or verify the data and models provided. Oversight will also reflect B&P's revenue estimates for the changes to the tax rates.**

FISCAL IMPACT - State Government (continued)	FY 2020 (6 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
STATE ROAD BOND FUND				
Additional Revenue DOR - §144.020 a 2% sales tax increase	$61,500,000	$122,900,000	$122,900,000	$122,900,000
ESTIMATED NET EFFECT ON STATE ROAD BOND FUND	**$61,500,000**	**$122,900,000**	**$122,900,000**	**$122,900,000**
STATE ROAD FUND				
Additional Revenue DOR - §144.020 a 2% sales tax increase	$44,900,000	$89,700,000	$89,700,000	$89,700,000
ESTIMATED NET EFFECT ON STATE ROAD FUND	**$44,900,000**	**$89,700,000**	**$89,700,000**	**$89,700,000**
STATE TRANSPORTATION FUND				
Additional Revenue DOR - §144.020 a 2% sales tax increase	$1,300,000	$2,500,000	$2,500,000	$2,500,000
ESTIMATED NET EFFECT ON STATE TRANSPORTATION FUND	**$1,300,000**	**$2,500,000**	**$2,500,000**	**$2,500,000**

FISCAL IMPACT - Local Government	FY 2020 (6 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
FUEL LOCAL DEPOSIT FUNDS				
Additional Revenue DOR - §144.020 a 2% sales tax increase	$15,400,000	$30,700,000	$30,700,000	$30,700,000
ESTIMATED NET EFFECT ON FUEL LOCAL DEPOSIT FUNDS	**$15,400,000**	**$30,700,000**	**$30,700,000**	**$30,700,000**

FISCAL IMPACT - Small Business

This proposal will decrease the income tax rate for pass-through businesses. This proposal will also increase the sales tax rate on all sales except food.

This legislation will have an impact on small businesses by placing a cap on the amount of local sales tax that may be imposed. The amount of local sales tax imposed shall not exceed 8.775%. Businesses located within a jurisdiction with a total combined local sales tax rate that exceeds 8.775% will have to make the necessary system updates and adjustments in order to comply with the provisions of this legislation.

FISCAL DESCRIPTION

This act modifies several provisions relating to taxation.

INDIVIDUAL INCOME TAX - Current 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, with an additional reduction in the top rate of tax of 0.4% to take effect in the 2019 calendar year. For all tax years beginning on or after January 1, 2020, this act further reduces the top rate of tax by 1.55%, with an eventual top rate of tax of 4.0%. (§143.011)

FISCAL DESCRIPTION (continued)

MISSOURI WORKING FAMILY TAX CREDIT - This act establishes the Missouri Working Family Tax Credit Act.

For all tax years beginning on or after January 1, 2020, this act creates a tax credit to be applied to a taxpayer's Missouri income tax liability after all reductions for other credits for which the taxpayer is eligible have been applied. The tax credit shall not exceed the amount of the taxpayer's tax liability, and shall not be refundable. The amount of such tax credit shall be twenty percent of the amount of a taxpayer's federal earned income tax credit.

The Department of Revenue shall determine whether a taxpayer who did not apply for the tax credit established by this act is eligible and shall notify such taxpayer of his or her potential eligibility.

The Department shall prepare an annual report regarding the tax credit established by this act containing certain information as described in the act.(§143.177)

This provision shall sunset after six years unless re-authorized by the General Assembly.

SALES TAXES - This act increases the state sales tax rate from 4.225% to 6.225%. (§144.020)

This act also places a cap of 8.775% on the combined rates of local sales taxes for any given taxing jurisdiction. Taxing jurisdictions in which the combined rate of sales taxes is in excess of such cap as of January 1, 2020, shall not be required to reduce or repeal any such taxes, but shall not be authorized to impose any new tax which shall result in a total combined rate of sales taxes in excess of the cap established in this act.

EFFECTIVE DATE - This act shall become effective on January 1, 2020.

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

City of Kansas City
City of Liberty
City of Springfield
City of St. Louis
Department of Conservation
Department of Natural Resources
Department of Revenue
Francis Howell School District
Jackson County Board of Election Commission
Joint Committee on Administrative Rules
Kirksville R-III School District
Metropolitan Zoological Park and Museum District
Missouri Department of Transportation
Office of Administration
Division of Budget and Planning
Office of the Secretary of State
Springfield Public School District
St. Louis County Board of Election Commission
St. Louis Collector Office
University of Missouri's Economic and Policy Analysis Research Center
Wellsville- Middleton R-I School District

Kyle Rieman
Director
March 4, 2019

Ross Strope
Assistant Director
March 4, 2019

LR:OD