COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0176-03
Bill No.: SB 188
Subject: Taxation and Revenue - Income; Taxation and Revenue - General; Education, Higher
Type: Original
Date: February 25, 2019

Bill Summary: This proposal establishes an endowment tax and reduces the top rate of income tax.

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 ($77,900,000)	Unknown to (Unknown) or ($26,173,581)	Unknown to (Unknown) or ($26,373,581)	Unknown to (Unknown) or ($27,273,581)
Total Estimated Net Effect on General Revenue	**Unknown to (Unknown) or ($77,900,000)**	**Unknown to (Unknown) or ($26,173,581)**	**Unknown to (Unknown) or ($26,373,581)**	**Unknown to (Unknown) or ($27,273,581)**

*** 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.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	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 12 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2023)
Total Estimated Net Effect on <u>All</u> 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)
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 2020	FY 2021	FY 2022	Fully Implemented (FY 2023)
Local Government	**$0**	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

§143.011 Individual Income Tax Rate Reduction

Oversight notes the current projected Individual Income Tax Rate is calculated as being reduced from SB 509 (2014) and from HB 2540 (2018) as follows:
TY 2018 it was 5.9%
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 **Office of Administration Division of Budget and Planning** (**B&P**) assume this section states that the top individual income tax rate shall be reduced by 0.2% beginning January 1, 2020. For the purpose of this fiscal note, B&P assumes that the rate reductions currently scheduled to implement under SB 509 (2014) will occur in consecutive years from tax year 2018 through tax year 2022.

Accounting for the changes in individual income tax law created by SB 509 (2014), HB 2540 (2018) and the Tax Cut & Jobs Act (2017), B&P estimates that this section will reduce Total State Revenue and General Revenue by $185.6 million in tax year 2020. Once fully implemented in tax year 2022, this section will reduce Total State Revenue and General Revenue by $186.2 million. Table 1 shows the impact from this section by calendar year.

Table 1: Rate Reduction by Calendar Year (Figures in Millions)

Tax Year	General Revenue Impact
2020	($185.6)
2021	($184.6)
2022	($186.2)

However, because this proposal would take effect January 1, 2020 individuals will adjust their withholdings and declarations during FY 2020. Therefore, B&P estimates that this proposal will reduce Total State Revenue and General Revenue by $77.9 million in FY 2020. Once fully implemented in FY 2023, and annually thereafter, this proposal will reduce Total State Revenue and General Revenue by $186.2 million. Table 2 shows the estimated impact from this section by fiscal year.

ASSUMPTION (continued)

Table 2: Rate Reduction by Fiscal Year (Figures in Millions)

Fiscal Year	General Revenue Impact
2020	($77.9)
2021	($185.1)
2022	($185.3)
2023	($186.2)

Oversight notes that B&P uses a 42% in the first year and 58% in the second year split when converting tax year impact to a fiscal year impact.

Office of the **Department of Revenue** (**DOR**) state they used their tax model that contains confidential taxpayer information to figure the fiscal impact of this proposed legislation. Based on Section 143.011 the top tax rates are as followed:

Top Tax Rate	
CY20	5.10%
CY21	5.00%
CY22	4.90%

Fiscal Year	Income Tax Reduction -figures in millions
FY 2020	($77.5)
FY 2021	($184.3)
FY 2022	($184.4)
FY 2023	($185.3)

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.

ASSUMPTION (continued)

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 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.

Officials at the **University of Missouri's Economic and Policy Analysis Research Center** (**EPARC**) assume this bill will reduce the top tax rate by two-tenths of one percent. Therefore, we will be restricting our analysis to the portions of this bill that pertain to this change in individual income tax.

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 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 5.2 % of excess over $8,423

The baseline for our analysis shows Net Tax Due is $5,324.401 million and the simulation results of reducing the top individual income tax rate to 5.2% only shows Net Tax Due equals $5,138.951 million. This is a decrease in Net Tax Due of $185.450 million from the baseline. Therefore, this corresponds to a decrease in Net General Revenue of $185.450 million.

§146.200 Endowment Tax
Officials at the **B&P** assume this section would create a 1.9% tax on qualifying endowments, beginning January 1, 2020. Endowment is defined as a permanent fund held by a nonpublic institution of higher education consisting of property, cash, cash equivalents, stocks, bonds, or any other marketable security; is used for specific purposes indicated by donors or related to the mission of the higher education institution; and the institution attempts to maintain and grow the principle of such fund while annually dispersing at least a portion of the investment earnings. Revenues generated by the endowment tax shall be deposited into General Revenue.

A tax of 1.9% shall be levied on such endowment fund if a nonpublic higher education institution has at least 10,000 students and the endowment is worth at least $40,000 per student. Based on information provided by Department of Higher Education (DHE) and data published by the National Center for Education Statistics (NCES), there are 45 nonpublic higher education institutions within Missouri that have an endowment fund. However, as of 2017 only two such institutions have both a student body of 10,000 or more and an endowment worth at least $40,000 per student. In 2017, the total taxable endowment amount would have been $8,364.5 million for a total tax of $158.9 million ($8,364.5 million x 1.9%). Therefore, B&P estimates that this provision could increase Total State Revenue and General Revenue by $158.9 million annually beginning in FY 2021.

ASSUMPTION (continued)

Officials at the **DOR** assume that based on §146.200 the Department took data provided by Missouri Department of Higher Educations to figure its fiscal impact. Missouri currently has 45 non-public universities that have an endowment, however, only two of them have more than the 10,000 student population with an endowment that is worth more than $40,000 per student.

Saint Louis University and Washington University in St. Louis are the two universities that would have to pay this endowment tax. Washington University has an endowment of $7.2 billion with 15,303 students. Their average per student is $471,000, and their endowment tax at 1.9% would be an estimated $137.1 million. Saint Louis University has an endowment of $1.1 billion with 14,458 students. Their average per student is $79,500, and their endowment tax at 1.9% would be an estimated $21.8 million. The department estimates the total endowment tax collect would be an estimated $158.9 million.

Officials at the **Department of Higher Education** assume there is no fiscal impact from this proposal.

Oversight notes this proposal only requires the tax from a nonpublic institution of higher education with more than 10,000 students and an endowment larger than $40,000 per student. Therefore, this would impact St. Louis University with an endowment estimated at $1,149,590,385 as they have 14,458 students and Washington University with an endowment estimated at $7,214,958,000 with 15,303 students.

Oversight notes this proposal would require these Universities to pay a tax equal to 1.9% of the value of their endowment. Oversight will show the impact as $158,926,419 ($1,149,590,385 * .019) +($7,214,958,000 x .019).

Oversight notes the endowment tax 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 tax revenue 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 **EPARC** assume this section will establish an endowment tax. They are unable to estimate the amount of revenue that will be generated by this endowment tax.

Officials at the **Northwest Missouri State University** and the **State Technical College of Missouri** each assume no fiscal impact.

ASSUMPTION (continued)

Officials at the **University of Central Missouri** estimate no fiscal impact.

Officials at the **Missouri State University** assume they are not a qualifying institution and therefore this will not have a fiscal impact on the University.

Oversight notes that a qualifying institution of higher education is defined as a nonpublic institution of higher education. Given that definition, Northwest Missouri State University, State Technical College of Missouri, Missouri State University and the University of Central Missouri would not qualify under this proposal to pay the tax and therefore would have no fiscal impact.

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

Officials from the **Office of the Secretary of State (SOS)** state 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 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 request funding through the appropriation process.

ASSUMPTION (continued)

Summary
B&P estimates that this proposal will decrease Total State Revenue and General Revenue by $77.9 million in FY 2020. Once fully implemented (FY 2023), this proposal will reduce Total State Revenue and General Revenue by $27.3 million annually. This table shows the impact to Total State Revenue and General Revenue by fiscal year.

	FY 2020	FY 2021	FY 2022	FY 2023
Income Tax Rate Reduction	($77.9)	($185.1)	($185.3)	($186.2)
Endowment Tax	$0	$158.9	$158.9	$158.9
Total Impact	($77.9)	($26.2)	($26.4)	($27.3)

This proposal will impact the calculation under Article X, Section 18(e).

EPARC assumes they are unable to estimate the amount of revenue that will be generated by the endowment tax, therefore restricted their analysis to changes in individual income tax parameters. If this bill were enacted they would expect Net General Revenue to decrease by $185.450 million due to reducing the top individual income tax rate to 5.2%.

DOR Summary

	FY 2020	FY 2021	FY 2022	FY 2023
Income Tax Rate Reduction	($77.5)	($184.3)	($184.4)	($185.3)
Endowment Tax	$0	$158.9	$158.9	$158.9
Total Impact	($77.5)	($25.4)	($25.5)	($26.4)

FISCAL IMPACT - State Government	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
GENERAL REVENUE				
Revenue Reduction - DOR §143.011 reduction in the individual income tax rate	($77,900,000)	($185,100,000)	($185,300,000)	($186,200,000)
Revenue - DOR §146.200 tax on nonpublic higher education institutions endowment funds	$0	$158,926,419	$158,926,419	$158,926,419
ESTIMATED NET EFFECT ON GENERAL REVENUE	**($77,900,000)**	**($26,173,581)**	**($26,373,581)**	**($27,273,581)**

*** 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 - Local Government	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
	$0	**$0**	**$0**	**$0**

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.

HIGHER EDUCATION ENDOWMENT TAX - For all tax years beginning on or after January 1, 2020, this act imposes a tax on the endowments of nonpublic higher education institutions at a rate of 1.9% of the aggregate fair market value of the assets of such endowments. The tax shall apply to the endowments, as defined in the act, of nonpublic higher education institutions that have an enrollment of at least 10,000 students in the preceding taxable year and an endowment with total assets of at least $40,000 per student. All revenues generated by the endowment tax shall be deposited in the General Revenue Fund. (§146.200)

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 0.2%, with an eventual top rate of tax of 4.9%. (§143.011)

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 Higher Education
Department of Revenue
Joint Committee on Administrative Rules
Northwest Missouri State University
Office of Administration Division of Budget and Planning
Office of the Secretary of State
State Technical College of Missouri
University of Central Missouri
University of Missouri's Economic and Policy Analysis Research Center

Kyle Rieman
Director
February 25, 2019

Ross Strope
Assistant Director
February 25, 2019

JH:LR:OD