

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 2089-01  
Bill No.: SB 410  
Subject: Taxation and Revenue - Income  
Type: Original  
Date: March 11, 2019

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Bill Summary: This proposal modifies provisions relating to the calculation of Missouri adjusted gross income.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue*	(Unknown)	Unknown	Unknown
<b>Total Estimated Net Effect on General Revenue</b>	<b>(Unknown)</b>	<b>Unknown</b>	<b>Unknown</b>

\* Oversight notes the amount of Tax Owed to the State does not change under this proposal, this proposal only changes when the Tax is Paid to the State (cash flow).

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 6 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</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 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
<b>Total Estimated Net Effect on FTE</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 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal will not impact Total State Revenue or the calculation under Article X, Section 18(e).

B&P notes that the federal Tax Cut and Jobs Act (TCJA) placed a cap on the amount of business interest that could be claimed on the federal tax return in any given year. The TCJA allows any unclaimed interest expenses to be carried forward indefinitely until the full amount has been deducted. This limit and carry forward provision began for tax year 2018.

This proposal would allow Missouri businesses to claim the full amount of business interest in the first year it occurred by allowing businesses to subtract any remaining amount of interest not already included in the Missouri Adjusted Gross Income (MAGI). In future years, businesses would then be required to add back into their MAGI the business interest that was carried forward on their federal return. B&P notes that this would accelerate the amount of business interest claimed into the first tax year available, but would not reduce the total amount of interest claimed over time. Therefore, this proposal will not impact Total State Revenue or the calculation under Article X, Section 18(e).

Therefore, B&P estimates that this proposal may have a significant impact on cash flow from year to year, depending on the amount of interest accelerated through this proposal. B&P is unable to estimate the potential cash flow impact as the required information is only available on federal returns and B&P does not have access to such returns.

B&P further notes that because tax year 2018 has ended and this proposal would not be enacted until after the start of FY 2020, any businesses impacted would have to file an amended tax year 2018 return in FY 2020. Therefore, this may have a larger cash flow impact in FY 2020 than would otherwise be typical in future fiscal years.

Officials at the **Department of Revenue (DOR)** assume for all tax years beginning on or after January 1, 2018, interest expenses paid or accrued in a previous taxable year, but allowed as a deduction in the current taxable year for federal tax purposes by reason of the carryforward of disallowed business interest provisions of federal law, shall be added to a taxpayer's federal adjusted gross income for the purposes of the calculation of Missouri adjusted gross income. For all tax years beginning on or after January 1, 2018, interest expenses paid or accrued in the current taxable year, but not allowed as a deduction for federal tax purposes, shall be subtracted from a taxpayer's federal adjusted gross income for the purposes of the calculation of Missouri adjusted gross income.

ASSUMPTION (continued)

The Department assumes this proposed legislation eliminates the carry forward provisions in 26 U.S.C. 163(j), and allows businesses the ability to deduct their total amount of disallowed business interest expenses from their Missouri tax return. This data is not reported on the Missouri Form 1120 since it currently flows through the federal corporate return. The Department also does not have access to the data on the Federal Form 8990, which would report the amount of disallowed business interest expenses claimed.

The Department believes this proposed legislation has no Total State Revenue impact, but may have a significant cash flow impact, especially in the first Fiscal Year, as businesses can deduct the full amount up front.

Officials at the **University of Missouri Economic & Policy Analysis Research Center (EPARC)** assume this proposal would require Missourians to add their federal investment interest expense deduction attributable to the previous year's carryover back into their Federal adjusted gross income to arrive at their Missouri adjusted gross income. As well, this bill would require Missourians to subtract the amount of their disallowed investment interest expense from their current tax year's Federal adjusted gross income to arrive at their Missouri adjusted gross income.

In simpler terms, for Missouri tax purposes, this bill negates the federal carry forward of disallowed investment interest expense deduction and requires Missourians to use the entire deduction in the current tax year. Unfortunately, we do not possess the detailed data from Federal Form 4952 that contains the amount of carry forward of disallowable investment interest expense from the current or previous tax year. We only possess the Investment Interest line item from Federal Schedule A. Therefore, we are unable to estimate the impact this bill may have on Net General Revenue.

**Oversight** notes this proposal would become effective on August 28, 2019. Since this proposal is for tax years beginning January 1, 2018, Oversight notes that any filer who reported disallowed investment interest expense would need to amend their tax return starting August 29, 2019. Oversight assumes this would cause a loss of revenue in FY 2020 and a gain in FY 2021 and FY 2022. As stated by B&P, DOR & EPARC this proposal does not change the amount of tax a company would owe just when the tax is required to be paid.

**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.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
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**GENERAL REVENUE**

<u>Revenue</u> - DOR §143.121 change in when interest income is paid	<u>(Unknown)</u>	<u>Unknown</u>	<u>Unknown</u>
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<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>(Unknown)</u></b>	<b><u>Unknown</u></b>	<b><u>Unknown</u></b>
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**\* Oversight notes the amount of Tax Owed to the State does not change under this proposal, this proposal only changes when the Tax is Paid to the State (cash flow).**

<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

Small businesses that reported this interest income would be impacted.

FISCAL DESCRIPTION

This act provides that, for all tax years beginning on or after January 1, 2018, interest expenses paid or accrued in a previous taxable year, but allowed as a deduction in the current taxable year for federal tax purposes by reason of the carryforward of disallowed business interest provisions of federal law, shall be added to a taxpayer's federal adjusted gross income for the purposes of the calculation of Missouri adjusted gross income.

FISCAL DESCRIPTION (continued)

This act also provides that, for all tax years beginning on or after January 1, 2018, interest expenses paid or accrued in the current taxable year, but not allowed as a deduction for federal tax purposes, shall be subtracted from a taxpayer's federal adjusted gross income for the purposes of the calculation of Missouri adjusted gross 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 Economic & Policy Analysis Research Center



Kyle Rieman  
Director  
March 11, 2019

Ross Strope  
Assistant Director  
March 11, 2019