

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3856-01
Bill No.: SB 742
Subject: Taxation and Revenue; Terrorism
Type: Original
Date: March 2, 2020

Bill Summary: This proposal provides income tax relief for victims of certain terrorist attacks.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
General Revenue*	\$0 up to (\$257,828) to (Unknown)	\$0 up to (\$253,054) to (Unknown)	\$0 up to (\$248,279) to (Unknown)	\$0 up to (\$243,505) to (Unknown)
Total Estimated Net Effect on General Revenue	\$0 up to (\$257,828) to (Unknown)	\$0 up to (\$253,054) to (Unknown)	\$0 up to (\$248,279) to (Unknown)	\$0 up to (\$243,505) to (Unknown)

*The fiscal impact depends upon the number (if any) of 9/11 survivors that die from related injuries or wounds in a given year and their Missouri taxable income. The WTC Health Program lists Missouri as having 100-499 persons in their program.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
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 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
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 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Budget & Planning (B&P)** state this proposed legislation would exempt specified terrorist victims from income tax beginning with the year of their injury through the year of the individual's death. B&P notes a specified terrorist victim is defined as an individual who died or was injured due to the 9/11 terrorist attacks or the anthrax attacks which took place between September 2001 and December 2001.

B&P notes the exemption proposed would not include deferred compensation payments or income that would not have occurred but for actions taken after 9/11.

B&P notes, based on information published by the CDC, there are 100 to 499 individuals living in Missouri and enrolled in the World Trade Center Health Program. B&P was unable to find data to the number of qualified anthrax survivors living within Missouri.

B&P further notes, based on data published by the U.S. Bureau of Economic Analysis the median per capita income in Missouri for 2018 was \$47,746. Therefore, B&P estimates that this proposal may exempt from \$4.8 million (100 x \$47,746) to \$23.8 million (499 x \$47,746) in income. However, deductions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from SB 509 (2014).

Tax Year	TY20	TY21*	TY22*	TY23*
Tax Rate	5.40%	5.30%	5.20%	5.10%
Low Estimate	\$257,828	\$253,054	\$248,279	\$243,505
High Estimate	\$1,286,564	\$1,262,738	\$1,238,913	\$1,215,088

*Assumes each SB 509 (2014) trigger is reached for rate reduction

B&P estimates that this proposal could reduce Total State Revenue (TSR) and General Revenue (GR) by \$257,828 to \$1,286,564 (tax year 2020 top tax rate is 5.4%) in Fiscal Year 2021. Once SB 509 (2014) has fully implemented, this proposal could reduce TSR and GR by \$243,505 to \$1,215,088 annually.

B&P notes the impact in the first year may be greater than the estimates shown above if individuals amend prior tax returns to exempt qualifying income.

ASSUMPTION (continued)

B&P further notes that over time qualifying individuals are likely to receive more income from non-taxable sources (such as social security payments); therefore, the impacts of this proposal may decline in the future.

Oversight notes B&P estimates this proposed legislation could reduce TSR and GR by an amount equal to \$257,828 to \$1,286,564 in Fiscal Year 2021 and by an amount equal to \$243,505 to \$1,215,088 when fully implemented.

Officials from the **Missouri Department of Revenue (DOR)** state Section 143.991.3 of this proposed legislation would make the income tax provisions of Chapter 143 inapplicable to a specified terrorist victim. DOR notes a specified terrorist victim is defined as a decedent who dies as a result of the 9/11/01 terrorist attacks, or who dies as a result of the anthrax attack(s) between 9/11/01 and 1/1/02.

DOR states DOR is unable to determine how many taxpayers may qualify for the provisions of put forth in this proposed legislation. DOR assumes the loss to Total State Revenue (TSR) and General Revenue (GR) would be minimal.

Officials from the **University of Missouri's Economic & Policy Analysis Research Center (EPARC)** state, if enacted, "this act (would) provide an income tax exemption for victims who die as a result of wounds or injury incurred as a result of the terrorist attacks against the United States on September 11, 2001, or as a result of illness incurred as a result of an attack involving anthrax occurring on or after September 11, 2001, and before January 1, 2002. Such income tax exempting shall apply for the period beginning in the tax year such injuries occurred and ending in the tax year of such victim's death. This act shall not apply to any individual as a participant or conspirator in any such attack or a representative of such an individual."

EPARC states EPARC does not possess the data necessary to indicate the number of filers this proposed legislation would impact and is unable to estimate the impact of the proposed legislation.

Oversight notes this proposed legislation would provide personal income tax relief to individuals who meet the definition of specified terrorist victim. Oversight notes a specified terrorist victim is defined as a decedent who dies as a result of wounds or injury incurred as a result of the terrorist attacks against the United States on September 11, 2001 or as a result of illness incurred as a result of an attack involving anthrax occurring on or after September 11, 2001, and before January 1, 2002.

ASSUMPTION (continued)

Subsequently, **Oversight** assumes an individual must die before such individual qualifies for the exemption set forth in this proposed legislation. Therefore, Oversight assumes amended tax returns would be filed by an executor of the deceased individual.

Oversight assumes this proposed legislation would exempt, for a specified terrorist victim, income for any prior taxable year beginning with the tax year ending before the tax year in which the wounds or injury were incurred to the tax year in which falls the death of the qualified individual.

Oversight notes, for each qualifying individual, a total of 21 tax years could be amended to benefit from the exemption set forth at the time this proposed legislation is enacted on August 28, 2020 (beginning in the tax year ending before the taxable year in which the wounds or injury were incurred (2000) to Tax Year 2020). Oversight assumes the number of tax years that could be amended to benefit from the exemption set forth could increase each year qualifying individuals remain alive.

However, **Oversight** notes Section 143.801 provides that no taxpayer shall be entitled to a refund in which such refund claim is filed in excess of three years from the time the return was filed (due) or two years from the time the tax was paid.

Therefore, **Oversight** assumes, for each qualifying individual, a total of 3 tax years could be amended to benefit from the exemption set forth at the time this proposed legislation is enacted on August 28, 2020.

Oversight notes, though, this proposed legislation excludes from the exemption set forth any amount of tax imposed which would be computed by only taking into account the items of income, gain, or other amounts determined to be taxable under 26 U.S.C. Section 692(d)(3), as amended.

Oversight is unable to determine how many qualifying taxpayers have died or will become deceased in specific future years. Furthermore, Oversight is unaware of the qualifying individuals' income that would become exempt under this proposed legislation.

Oversight notes the State of Connecticut allows for a similar exemption. However, Connecticut's law allows for an exemption of income tax to specified terrorist victims only in the taxable year in which falls the date of his or her death.

ASSUMPTION (continued)

New York allows for an income tax exemption for Tax Year 2000 and all later tax years up to and including the year of the death of an individual, as a result of the September 11, 2001 terrorist attacks.

New Jersey allows an exclusion for income of victims who died as a result of the September 11, 2001 terrorist attacks which applies for Tax Year 2000 and all later years up to and including the year of death.

For purposes of this fiscal note, **Oversight** will report a revenue reduction using a range beginning with \$0 “Up to” the estimates provided by B&P and ending with a negative Unknown.

<u>FISCAL IMPACT -</u> <u>State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2024)
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**GENERAL
REVENUE FUND**

Revenue Reduction -
Section 143.991 -
Income tax

exemption for specified terrorist victims	\$0 or up to (\$257,828) to <u>(Unknown)</u>	\$0 or up to (\$253,054) to <u>(Unknown)</u>	\$0 or up to (\$248,279) to <u>(Unknown)</u>	\$0 or up to (\$243,505) to <u>(Unknown)</u>
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**ESTIMATED NET
EFFECT ON
GENERAL
REVENUE FUND**

<u>\$0 or up to</u> <u>(\$257,828) to</u> <u>(Unknown)</u>	<u>\$0 or up to</u> <u>(\$253,054) to</u> <u>(Unknown)</u>	<u>\$0 or up to</u> <u>(\$248,279) to</u> <u>(Unknown)</u>	<u>\$0 or up to</u> <u>(\$243,505) to</u> <u>(Unknown)</u>
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FISCAL IMPACT -
Local Government

FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2024)
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This act provides an income tax exemption for victims who die as a result of wounds or injury incurred as a result of the terrorist attacks against the United States on September 11, 2001, or as a result of illness incurred as a result of an attack involving anthrax occurring on or after September 11, 2001, and before January 1, 2002. Such income tax exemption shall apply for the period beginning in the tax year such injuries occurred and ending in the tax year of such victim's death.

The tax exemption provided by this act shall not apply to the amount of any tax imposed which would be computed by only taking into account the items of income, gain, or other amounts determined to be taxable under federal law, as described in the act.

This act shall not apply to any individual as a participant or conspirator in any such attack or a representative of such an individual.

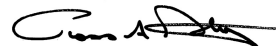
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration - Budget & Planning Division
Missouri Department of Revenue
University of Missouri's Economic & Policy Analysis Research Center



Julie Morff
Director
March 2, 2020



Ross Strope
Assistant Director
March 2, 2020