

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0966S.01I  
 Bill No.: SB 245  
 Subject: Taxation and Revenue - Income  
 Type: Original  
 Date: February 24, 2021

Bill Summary: This proposal would increase the amount of the personal income tax cut and the business income deduction in current law.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2028)
General Revenue Fund	(\$95,576,450)	(\$227,218,242)	(\$226,382,750)	(\$519,507,494)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$95,576,450)</b>	<b>(\$227,218,242)</b>	<b>(\$226,382,750)</b>	<b>(\$519,507,494)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2028)
<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.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>
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FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2028)
<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>				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2028)
<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 \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2028)
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**FISCAL ANALYSIS**

ASSUMPTION

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation will reduce Total State Revenue (TSR) by \$463,100,000 annually once fully implemented.

B&P states this proposed legislation will impact the calculation under Article X, Section 18.

**Section 143.011 & 143.022 – Individual Income Tax Rate Reduction & Deduction For Business Income**

Officials from **B&P** state Section 143.011.2 would end the current rate reductions, created under [SB 509 \(2014\)](#), after three (3) reductions. B&P notes that there have been two (2) reductions (Tax Year(s) 2018 and 2019) so far. B&P further notes that the tax rate reduction was not triggered for Tax Year(s) 2020 or 2021. For the purpose of this fiscal note, B&P will assume that the third reduction will be triggered for Tax Year 2022.

Based on current revenue forecasts and average revenue growth, B&P estimates that revenues in Fiscal Year 2021, Fiscal Year 2024, and Fiscal Year 2025 will reach the SB 509 (2014) growth trigger requirement for reductions to the top rate of tax. Therefore, the top rate of tax would be reduced by 0.1% in Tax Year 2022, 2025, and 2026 under SB 509 (2014).

Section 143.011.4 would create additional income tax top rate reductions beginning Tax Year 2022. The top rate of tax may be reduced by 0.2% each year that net general revenue collected in the previous fiscal year exceeds the highest amount of net general revenue collected in any of the three (3) previous fiscal years by at least \$150M. The aggregate amount of reductions shall not exceed 0.7%. Table 1 shows the tax rate changes under this proposed legislation.

Table 1: Tax Rates

Tax Year	Current Law	Proposed Reduction	Proposed Top Rate
2018	5.9%	0.0%	5.9%
2019	5.4%	0.0%	5.4%
2020	5.4%	0.0%	5.4%
2021	5.4%	0.0%	5.4%
2022	5.3%	0.2%	5.1%
2023	5.3%	0.0%	5.1%
2024	5.3%	0.0%	5.1%
2025	5.2%	0.2%	4.9%
2026	5.1%	0.2%	4.7%

B&P notes that Section 143.011.4 would allow for a maximum total reduction in the top tax rate of 0.7%. However, each reduction is equal to 0.2%; therefore, only 0.6% in total reductions will occur under this subsection.

B&P state Section 143.022.4 would increase the amount of pass-through business income exempt from Individual Income Tax from 5% increments to 10% increments, beginning with Tax Year 2022. B&P notes that there have been two (2) increases in the exemption rate (Tax Year(s) 2018 and 2019) so far. B&P further notes that the business income tax exemption was not triggered for Tax Year(s) 2020 or 2021.

Based on current revenue forecasts and average revenue growth, B&P estimates that revenues in Fiscal Year 2021, Fiscal Year 2024, and Fiscal Year 2025 will reach the SB 509 (2014) growth trigger requirement for the 5% increase to the business income exemption. Therefore, the income exemption would be increased in Tax Year(s) 2022, 2025, and 2026 under SB 509 (2014).

B&P notes that the current pass-through business exemption is 10% for Tax Year(s) 2020 and 2021. Table 2 shows the pass-through business exemption under this proposed legislation.

Table 2: Pass-through Business Exemption

Tax Year	Current Law	Proposed Increase	Proposed Exemption
2018	5%	0%	5%
2019	10%	0%	10%
2020	10%	0%	10%
2021	10%	0%	10%
2022	15%	10%	20%
2023	15%	0%	20%
2024	15%	0%	20%
2025	20%	10%	30%
2026	20%	10%	40%
2027	20%	10%	50%

Using Tax Year 2018 data, the most recent complete tax year available, and accounting for the changes in Individual Income Tax law created by SB 509 (2014) and HB 2540 (2018), B&P estimates that this proposal will reduce TSR and General Revenue (GR) by \$226.0M in Tax Year 2022. Once fully implemented in Tax Year 2027, this section will reduce TSR and GR by \$508.4M. Table 1 shows the impact from this section by calendar year.

Table 3: Estimated Impact  
 by Tax Year

Tax Year	GR Loss
2022	(\$225,981,847)
2023	(\$225,159,065)
2024	(\$224,305,518)
2025	(\$344,296,385)
2026	(\$480,121,466)
2027	(\$508,405,696)

However, because this proposed legislation would take effect January 1, 2022 individuals will adjust their withholdings and declarations during Fiscal Year 2022. Based on actual collections data, B&P estimates that 42% of individual income taxes are paid during fiscal year 1 and 58% are paid during fiscal year 2. Therefore, B&P estimates that this proposed legislation will reduce TSR and GR by \$94.9M in Fiscal Year 2022. Once fully implemented in Fiscal Year 2028, and annually thereafter, this proposed legislation will reduce TSR and GR by \$508.4M. Table 2 shows the estimated impact from this section by fiscal year.

Table 4: Estimated Impact  
 by Fiscal Year

Fiscal Year	GR Loss
2022	(\$94,912,376)
2023	(\$225,636,278)
2024	(\$224,800,575)
2025	(\$274,701,682)
2026	(\$401,342,919)
2027	(\$492,000,842)
2028	(\$508,405,696)

Officials from the **Missouri Department of Revenue (DOR)** state Section 143.011 is updated to reduce the number of reductions allowed pursuant to subsection 2 of this section (SB509). The amount of reductions allowed pursuant to the aforementioned is currently five (5). This proposed legislation would allow that no more than three (3) reductions shall be made under subsection 2 of this section. DOR notes that under current law, two (2) of the reductions have occurred (Tax Year 2018 & Tax Year 2019) and the third is forecasted to occur in Tax Year 2022 which will set the rate at 5.3%.

This section states that, in addition to the rate reductions under Subsection 2 and 3 of this section, beginning with the 2022 calendar year the top rate of tax under Subsection 1 of this section may be reduced over a period of years. Each reduction in the top rate of tax shall be by one-fifth of one percent (0.2%) and no more than one (1) reduction shall occur in a calendar year. The aggregate amount of reductions made under this subsection shall not exceed seven-tenths of one percent (0.7%). This results in three (3) reductions being made.

Any reduction in the rate of tax shall only occur if the amount of net general revenue collected in the previous fiscal year exceeds the highest amount of net general revenue collected in any of the three fiscal years prior to such fiscal year by at least one hundred fifty million dollars (\$150,000,000).

DOR states Section 143.022 is updated to read “for all tax years beginning on or after January 1, 2017 and beginning on or before December 31, 2021”, each increase in the percentage shall be by five percent (5%) and no more than one (1) increase shall occur in each year.

For all tax years beginning on or after January 1, 2022, each increase in the percentage shall be by ten percent (10%), and no more than one (1) increase shall occur in a calendar year.

The maximum percentage that may be subtracted is increased from twenty percent (20%) to fifty percent (50%) of business income.

DOR used its internal Income Tax Model that contains confidential taxpayer data to create the fiscal impact. DOR notes that the Individual Income Tax filing deadline that was scheduled for April 15, 2020 was moved to July 15, 2020. This move in the filing deadline is estimated to prevent the triggering in the next three (3) years of the original SB 509 and would additionally not allow this proposed legislation’s reduction requirements to be implemented until Tax Year 2025. DOR believes that the tax rates, as proposed, would be as follows:

Tax Year	Current Income Tax Rate	Current Business Income Rate	Proposed Income Tax Rate	Proposed Business Income Rate
2018	5.9%	5%	5.9%	5%
2019	5.4%	10%	5.4%	10%
2020	5.4%	10%	5.4%	10%
2021	5.3%	15%	5.3%	15%
2022	5.3%	15%	5.1%	20%
2023	5.3%	15%	5.1%	20%
2024	5.3%	15%	5.1%	20%
2025	5.2%	20%	4.9%	30%
2026	5.1%	20%	4.7%	40%
2027	5.1%	20%	4.7%	50%
2028	5.1%	20%	4.7%	50%

The loss to GR per fiscal year is estimated to be:

Fiscal Year	Amount
2022	(\$95,576,450.03)
2023	(\$227,218,242.36)
2024	(\$226,382,749.59)
2025	(\$276,971,379.02)
2026	(\$406,100,668.43)
2027	(\$500,654,012.53)
2028	(\$519,507,494.42)

DOR anticipates minimal administrative costs of \$2,000 for one-time system updates.

Officials from the **University of Missouri's Economic & Policy Analysis Research Center (EPARC)** states this proposed legislation retains the third rate adjustment from SB509, a third and final reduction in the top Individual Income Tax rate of 0.1%. It appears the third revenue trigger for SB509 will be set at the end of Fiscal Year 2021. Therefore, the trigger allows a decrease the top tax rate for the 2021 tax year to 5.3% and an increase in the business income deduction to fifteen percent (15%). EPARC have accounted for these in our baseline.

This proposed legislation creates a new top Individual Income Tax rate reduction plan. It would increase the personal income tax cut by an additional 0.1%. Current law states that when a revenue threshold is met, the top personal income tax rate will be cut by one-tenth of one percent (0.1%) the following tax year. This proposed legislation would increase this cut to one-fifth of one percent (0.2%). As well, this proposed legislation would increase the business income deduction by 5%. Current law states that when a revenue threshold is met, the business income deduction will be increased by 5% the following tax year. This proposed legislation would allow, when the revenue threshold is met, the business income deduction to be increased by 10% the following year.

EPARC estimates the parameters of this proposed legislation will reduce Net General Revenue by \$129.998 million in Fiscal Year 2023.

EPARC estimates the parameters of this proposed legislation will reduce Net General Revenue by \$285.977 million in Fiscal Year 2024.

EPARC estimates the parameters of this proposed legislation will reduce Net General Revenue of \$538.984 million in Fiscal Year 2025.

**Oversight** notes the impact(s) of this proposed legislation have been calculated using internal tax models that contain confidential taxpayer information.

**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, DOR and EPARC.

**Oversight** assumes EPARC has calculated the impact(s) of this proposed legislation assuming the rate reduction(s) currently permitted under current law pursuant to SB 509 (2014) will occur in consecutive years. Oversight assumes B&P and DOR has calculated the impact(s) of this proposed legislation assuming the rate reduction(s) currently permitted under current law pursuant to SB 509 (2014) will occur in future years, based on forecasted net general revenue collections.

For purposes of this fiscal note, Oversight will report a revenue reduction as estimated by the Missouri Department of Revenue.

<u>FISCAL IMPACT</u> – State Government	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2028)
<b>GENERAL REVENUE FUND</b>				
<u>Revenue Reduction</u> – Section(s) 143.011 & 143.022 – Individual Income Tax Rate Reduction(s) and Business Income Deduction Increase	<u>(\$95,576,450)</u>	<u>(\$227,218,242)</u>	<u>(\$226,382,750)</u>	<u>(\$519,507,494)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$95,576,450)</u></b>	<b><u>(\$227,218,242)</u></b>	<b><u>(\$226,382,750)</u></b>	<b><u>(\$519,507,494)</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2028)
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

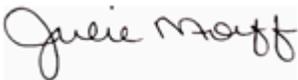
Current law provides for a reduction in the top rate of income tax over a period of years from 6% to 5.5%, with each cut becoming effective if net general revenue collections meet a certain trigger. This act increases the amount by which the top rate will be reduced. Each year the trigger is met, the top rate will be reduced by 0.2% rather than 0.1%, and the aggregate amount of reductions to be made, including reductions already made and reductions made under this act, shall not exceed 1.0%. (Section 143.011)

Currently, a business income deduction is being phased in over a period of years. Each year that a general revenue growth trigger is met, the deduction amount is increased by 5%. Once fully phased in, individual taxpayers may deduct up to 20% of their business income. This act increases the amount that may be deducted. Each year that the trigger is met, the deduction amount will be increased by 10%. Once fully phased in, individual taxpayers may deduct up to 50% of their business income. (Section 143.022)

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  
February 24, 2021



Ross Strobe  
Assistant Director  
February 24, 2021