

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1526S.02I
Bill No.: SB 313
Subject: Taxation and Revenue - Income
Type: Original
Date: February 24, 2021

Bill Summary: This proposal would reduce the top rate of income tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY Unknown)
General Revenue*	\$0	\$0	\$0	\$0 to more than or less than (\$102,437,890)
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0	\$0 to more than or less than (\$102,437,890)

*Oversight notes the revenue reduction estimate of \$102,437,890 is for reducing the Missouri individual income tax rate by 0.1%, as acquired from the estimated impact of another fiscal note (HB 554). This estimate is based on current (2018) tax collections and should not be misconstrued to represent an estimate of revenue reduction from a future rate reduction in this bill, which could be triggered several years in the future. Based on Consensus Revenue Estimates, the rate reduction would not be triggered until at least calendar year 2024.

Numbers within parentheses: () indicate costs or losses.

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY Unknown)
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 2022	FY 2023	FY 2024	Fully Implemented (FY Unknown)
Total Estimated Net Effect on FTE	0	0	0	\$0

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.

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

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 \$6,663,630,082 once fully implemented. Furthermore, this proposed legislation will impact the calculation under Article X, Section 18(e).

B&P state, starting with Tax Year 2021, this proposed legislation would reduce the top Individual Income Tax rate by 0.1% in tax years immediately following a fiscal year where net general revenue collections exceed the baseline net general revenue allowed.

The initial baseline general revenue amount is defined as \$10.3 billion. The baseline net general revenue shall increase by \$100 million for each reduction that occurs under Subsection 143.011.4 and more than one reduction may occur per year.

For example:

- Example 1: Net general revenues in the first triggering fiscal year are \$10.35 billion, then there would be one 0.1% reduction in the tax rate the following tax year and net general revenue collections would have to be at least \$10.4 billion before the next rate reduction were to occur.
- Example 2: Net general revenue collections in the first triggering fiscal year are \$10.45 billion, then there would be two 0.1% reductions in the tax rate the following tax year and net general revenue collections would have to be \$10.5 billion before the next rate reduction were to occur.

B&P notes, under Subsection 143.011.2, the top rate of tax is already scheduled to be reduced to 5.1% in the future, dependent on net general revenue growth triggers. Therefore, B&P will show this proposed legislation starting with a top rate of tax of 5.1%. Table 1 shows the top rate of tax and the baseline net general revenue required.

Table 1: Top Tax Rate at Each Stage of the Baseline Net General Revenue

Top Tax Rate	Baseline Net General Revenue	Top Tax Rate	Baseline Net General Revenue	Top Tax Rate	Baseline Net General Revenue
5.10%	\$10,300,000,000	3.30%	\$12,100,000,000	1.50%	\$13,900,000,000
5.00%	\$10,400,000,000	3.20%	\$12,200,000,000	1.40%	\$14,000,000,000
4.90%	\$10,500,000,000	3.10%	\$12,300,000,000	1.30%	\$14,100,000,000
4.80%	\$10,600,000,000	3.00%	\$12,400,000,000	1.20%	\$14,200,000,000
4.70%	\$10,700,000,000	2.90%	\$12,500,000,000	1.10%	\$14,300,000,000
4.60%	\$10,800,000,000	2.80%	\$12,600,000,000	1.00%	\$14,400,000,000
4.50%	\$10,900,000,000	2.70%	\$12,700,000,000	0.90%	\$14,500,000,000
4.40%	\$11,000,000,000	2.60%	\$12,800,000,000	0.80%	\$14,600,000,000
4.30%	\$11,100,000,000	2.50%	\$12,900,000,000	0.70%	\$14,700,000,000
4.20%	\$11,200,000,000	2.40%	\$13,000,000,000	0.60%	\$14,800,000,000
4.10%	\$11,300,000,000	2.30%	\$13,100,000,000	0.50%	\$14,900,000,000
4.00%	\$11,400,000,000	2.20%	\$13,200,000,000	0.40%	\$15,000,000,000
3.90%	\$11,500,000,000	2.10%	\$13,300,000,000	0.30%	\$15,100,000,000
3.80%	\$11,600,000,000	2.00%	\$13,400,000,000	0.20%	\$15,200,000,000
3.70%	\$11,700,000,000	1.90%	\$13,500,000,000	0.10%	\$15,300,000,000
3.60%	\$11,800,000,000	1.80%	\$13,600,000,000	0.00%	\$15,400,000,000
3.50%	\$11,900,000,000	1.70%	\$13,700,000,000		
3.40%	\$12,000,000,000	1.60%	\$13,800,000,000		

B&P notes that the Revised CRE for Fiscal Year 2021 is \$10.2 billion and the CRE for Fiscal Year 2022 is \$9.8 billion. Based on current revenue forecasts and average revenue growth, B&P estimates that the first reduction(s) under this proposal may occur in Tax Year 2025, for Fiscal Year 2024 net general revenue collections.

However, B&P is unable to determine the number of tax reductions that may occur in any given future tax year as well. Therefore, B&P estimates that this proposed legislation may take anywhere from 26 (assuming two reductions per year on average) to 52 years, or more, to implement. Based on Fiscal Year 2019 Individual Income Tax collections, the most recent year not impacted by the delayed tax due dates, B&P estimates that this proposed legislation will reduce TSR and General Revenue (GR) by \$6,663,630,082 once fully implemented.

Officials from the **Missouri Department of Revenue (DOR)** state this proposed legislation would become effective August 28, 2021 and would create a reduction in the Individual Income Tax rate of 0.1% in tax years immediately following a fiscal year where net general revenue collections exceed the baseline net general revenue allowed.

Per this proposed legislation the initial baseline general revenue amount starts at \$10.3 billion. This proposed legislation requires the baseline net general revenue to increase by \$100 million to trigger the individual income rate reduction. This proposed legislation does allow more than one reduction annually.

DOR notes that the top rate of tax is currently reducing per the requirements of [SB 509 \(2014\)](#). The SB 509 reductions are projected to lower the current 5.4% tax rate to 5.1% by Tax Year 2026. DOR notes that the Revised CRE for Fiscal Year 2021 is \$10.2 billion and the CRE for Fiscal Year 2022 is \$9.8 billion. Based on current revenue forecasts and average revenue growth, DOR assumes the first reduction(s) under this proposal would not occur until at least Tax Year 2025, for Fiscal Year 2024 net general revenue collections, which is outside the fiscal note period.

Since this proposed legislation starts with \$10.3 billion as the baseline reduction it would require at least 52 reductions to bring the tax rate from its projected 5.1% to 0.0%. Since this proposed legislation requires an increase in revenue in order to trigger the reduction this proposed legislation could take more than 52 years to completely eliminate the Individual Income Tax rate.

Due to the inability of being able to predict what net general revenue will be in future fiscal years, DOR is unable to estimate in which years this proposed legislation may have a fiscal impact. It is noted that based on Fiscal Year 2019 Individual Income Tax collections, the most recent year not impacted by the delayed tax due dates, once fully implemented, it could reduce TSR and GR by \$6,663,630,082.

Oversight notes this proposed legislation would permit the top rate of Individual Income Tax to be reduced by at least, but could exceed, one-tenth of one percent (0.1%) when net general revenue collected if a fiscal year exceeds the baseline net general revenue collections.

This proposed legislation has defined “Base Net Revenue Collections” as ten billion, three hundred million dollars (\$10,300,000,000). Oversight notes the base net revenue collections is to increase by one hundred million dollars (\$100,000,000) for each reduction in the rate of tax created under this proposed legislation.

Oversight notes, pursuant to SB 509 (2014), there are three (3) more reductions to the top Individual Income Tax rate permitted; each equal to 0.1%. Oversight notes the triggers created under SB 509 (2014), enabling reduction(s) to the top rate of Individual Income Tax, are different than the trigger(s) created under this proposed legislation. Oversight assumes the triggers pursuant to SB 509 (2014) **follow** net general revenue, whether net general revenue increases or decreases, whereas the trigger(s) established under this proposed legislation are constant; a base (subject to change with each reduction that occurs under this proposed legislation).

Thus, Oversight assumes the top rate of Individual Income Tax could be reduced pursuant to SB 509 (2014) while net general revenue collections are significantly less than the baseline net general revenue collections, as defined in this proposed legislation. Oversight assumes, if such rate reduction occurs pursuant to SB 509 (2014) while net general revenue collections is significantly less than the baseline net general revenue collections, as defined, it may become more difficult for future net general revenue collections to meet the baseline net general revenue collections as a result of the reduced future Individual Income Tax income (as a result of the reduction in tax rate).

Therefore, and in addition to other factors unknown, the difficulty in determining the actual impact(s) of this proposed legislation is assumed to be substantial.

Oversight assumes, based on information reported by B&P and DOR that the estimated net general revenue collections for Fiscal Years 2021 and 2022 will not meet the requirements to trigger a rate reduction created under this proposed legislation.

Oversight assumes Fiscal Year 2021 net general revenue collections will permit the top rate of Individual Income Tax to be reduced pursuant to SB 509 (2014) for Tax Year 2022. Oversight notes Tax Year 2022 tax returns would not be filed until after January 1, 2023 (Fiscal Year 2023). Oversight notes this would establish a top rate of Individual Income Tax equal to 5.3% with two (2) more deductions permitted pursuant to SB 509 (2014) in future years.

Oversight further notes that B&P and DOR estimate the next tax rate reduction pursuant to SB 509 (2014) (5.3% to 5.2%) will likely not occur (if at all) until Tax Year 2025. Oversight notes Tax Year 2025 tax returns would not be filed until after January 1, 2026 (Fiscal Year 2026).

For purposes of this fiscal note, Oversight will assume that the rate reduction(s) pursuant to SB 509 (2014) will occur before any rate reductions occur under this proposed legislation.

Therefore, for purposes of this fiscal note, so that an impact is presented, Oversight will report a revenue reduction equivalent to the top rate of Individual Income Tax of 5.1% being reduced to 5.0%.

Oversight notes, in response to legislation that **specifically provided a time for which a rate reduction could occur** (HB 554 – 2021), in addition to the rate reductions permitted under current law pursuant to SB 509 (2014), B&P suggested a reduction in the top rate of Individual Income Tax from 5.1% to 5.0% would result in a revenue reduction to GR equal to \$102,437,890.

Therefore, Oversight will report a revenue reduction equal to \$102,437,890 in an unknown year as the result of **one rate reduction** that could occur under this proposed legislation. Oversight notes more than one rate reduction can occur in any given year should the trigger(s) established under this proposed legislation be met. Also, more than one tax rate reduction can occur; assuming the trigger(s) created under this proposed legislation are met each fiscal year, rate reductions would occur until the Individual Income Tax rate equals 0.00%. Oversight notes, based on the estimates provided by B&P and DOR, once the Individual Income Tax Rate equals 0.00% as a result of this proposed legislation, revenues would be decreased by \$6,663,630,082 annually.

Oversight notes the revenue reduction of \$102,437,890, acquired from the estimated impact of **another fiscal note**, is an estimate that is **specific** to an exact time in the future and should **not** be misconstrued to represent an exact revenue reduction that could be recognized should a rate reduction occur under this proposed legislation **at any time different** than the time used to estimate one rate reduction in HB 554 (2021).

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY Unknown)
<u>Revenue Reduction – Section 143.011 – Income Tax Rate Reduction(s)</u>	\$0	\$0	\$0	<u>\$0 to more than or less than (\$102,437,890)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	\$0	\$0	\$0	<u>\$0 to more than or less than (\$102,437,890)</u>

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

FISCAL IMPACT – Small Business

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

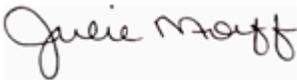
FISCAL DESCRIPTION

Beginning with the 2021 calendar year, this act provides that the top rate of income tax may be reduced in 0.1% increments. A reduction shall only occur if net general revenue collections in the previous fiscal year exceed baseline net general revenue collections, which shall be \$10.3 billion, increased by \$100 million for each reduction made pursuant to the act. An additional reduction of 0.1% shall be made for every \$100 million of net general revenue collections that is in excess of baseline net general revenue collections during a fiscal year, and more than one reduction may be made during a calendar year.

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



Julie Morff
Director
February 24, 2021



Ross Strobe
Assistant Director
February 24, 2021