

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2138S.01I
 Bill No.: SB 451
 Subject: Taxation and Revenue - Income; Education, Higher; Abortion
 Type: Original
 Date: March 10, 2021

Bill Summary: This proposal would modify provisions relating to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2027)
General Revenue Fund		Up to (\$16,303,425) to could exceed \$4,065,487	Up to (\$15,601,216) to could exceed \$12,034,317	Up to (\$14,939,413) to could exceed \$36,286,915
Total Estimated Net Effect on General Revenue	(\$74,715,610)	Up to (\$16,303,425) to could exceed \$4,065,487	Up to (\$15,601,216) to could exceed \$12,034,317	Up to (\$14,939,413) to could exceed \$36,286,915

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2027)
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2027)
Total Estimated Net Effect on All 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 2027)
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 2027)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration – Budget & Planning (B&P)** state this proposed legislation will decrease Total State Revenue (TSR) by \$14,939,413 once [SB 509 \(2014\)](#) has fully implemented.

B&P state this proposed legislation will impact the calculation under Article X, Section 18(e)

Section 143.011 – Individual Income Tax Rate Reduction

Officials from **B&P** state this proposed legislation will reduce the top individual income tax rate by 0.17% beginning January 1, 2022. The top rate of tax may only be reduced if one or more institutions are subject to the Endowment Tax, as authorized in Section 146.200.

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 will be reduced by 0.1% in Tax Year(s) 2022, 2025, and 2026 under SB 509 (2014).

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 section would reduce tax collections by \$177.9 million for Calendar Year 2022. Once SB 509 (2014) has fully implemented, B&P estimates that provision would reduce tax collections by \$176.2 million annually.

Table 1: Income Tax Reduction by Calendar Year

Tax Year	Top Tax Rate - Current Law*	Top Tax Rate - Proposal	Revenue Loss
2022	5.3%	5.13%	(\$177,894,308)
2023	5.3%	5.13%	(\$177,193,691)
2024	5.3%	5.13%	(\$176,489,284)
2025	5.2%	5.03%	(\$175,256,590)
2026	5.1%	4.93%	(\$176,236,037)

**Assumes rate reductions scheduled to occur under SB 509 (2014) are triggered for TY22, TY25, and TY26*

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 General Revenue (GR) by \$74.7 million in Fiscal Year 2022. Once SB 509 (2014) has been fully implemented in Fiscal Year 2027, and annually thereafter, this proposed legislation will reduce TSR and GR by \$176.2 million. Table 2 shows the estimated impact from this section by fiscal year.

Table 2: Income Tax Reduction by Fiscal Year

Fiscal Year	GR Impact
FY 22	(\$74,715,610)
FY 23	(\$177,600,049)
FY 24	(\$176,897,840)
FY 25	(\$175,971,553)
FY 26	(\$175,667,958)
FY 27	(\$176,236,037)

**Assumes rate reductions scheduled to occur under SB 509 (2014) are triggered for TY22, TY25, and TY26*

Officials from the **Missouri Department of Revenue (DOR)** state this proposed legislation would allow for a seventeen-hundredths of one percent (0.17%) reduction starting in Calendar Year 2022 (which starts January 1, 2022).

DOR notes the current projected Individual Income Tax Rates are calculated with SB 509 (2014) and HB 2540 (2018) as follows:

Tax Year 2018 it was 5.9% (0.1% reduction from SB 509)

Tax Year 2019 it was 5.4% (0.1% reduction from SB 509 + .4% reduction from HB 2540)

Tax Year 2020 it is 5.4% (no reductions)

Tax Year 2021 it is 5.4% (no reductions)

Tax Year 2022 will be 5.3% (0.1% reduction from SB 509)

Tax Year 2023 will be 5.3% (no reductions)

Tax Year 2024 will be 5.3% (no reductions)

Tax Year 2025 will be 5.2% (0.1% reduction from SB 509)

Tax Year 2026 will be 5.1% (final 0.1% reduction from SB 509)

Tax Year 2027 will be 5.1% from here on out

DOF used its internal Income Tax Model that contains confidential taxpayer data to create the fiscal impact. The model calculates the calendar/tax year impact, then converts the data to fiscal year using a 42% in the first year and 58% in the second year split for conversion.

The General Revenue impact would be a loss per calendar year of

Tax Year	Amount
2022	(\$177,295,651.85)
2023	(\$176,597,547.41)
2024	(\$175,896,454.61)

This would translate into the following loss per fiscal year:

Fiscal Year	Amount
2022	(\$74,464,173.78)
2023	(\$177,002,447.99)
2024	(\$176,303,088.44)

Officials from the **University of Missouri's Economic & Policy Analysis Research Center (EPARC)** state this proposed legislation would reduce the top Individual Income Tax rate in 2022 by seventeen hundredths of one percent (0.17%) if a higher education institution should be taxed on their endowments.

EPARC estimates the Individual Income Tax rate reduction could reduce Net General Revenue by \$175,250,000 in Fiscal Year 2023 and beyond.

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 DOF.

For purposes of this fiscal note, Oversight will report a revenue reduction to GR equal to the amount(s) estimated by B&P.

Section 146.200 – Endowment Tax

Officials from **B&P** states his section would create a 1.9% tax on qualifying endowments, beginning with Tax Year 2022. B&P notes that because the tax covers Tax Year 2022, final returns by impacted institutions would not be filed until 2023. Revenues generated by the Endowment Tax shall be deposited into GR.

Endowment is defined as a permanent fund held by an 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.

A tax of 1.9% shall be levied on such endowment if an institution of higher education: is affiliated with or provides medical faculty to an abortion facility, offers specific medical residencies or fellowships in performing or inducing abortions, or supports abortion facilities in any manor, when the abortions are not necessary to save the life of the mother. B&P notes that Washington University is the only institution of higher education located within Missouri that would meet this standard. Based on Washington University's 2020 annual financial report, the university had an endowment of \$8,489,296,000.

Therefore, B&P estimates that a 1.9% endowment tax would increase GR and TSR by \$161.3 million annually, beginning in Fiscal Year 2023.

Officials from **DOF** state this proposed legislation requires a qualifying institution of higher education to pay a tax on its endowment if it participates in, or supports abortion. DOF notes there are 6 Universities in the State of Missouri that provide medical services; however only Washington University is known to support abortion services.

According to the Washington University website, under University Facts, as of June 30, 2020 their endowment's market value was \$8,489,296,000.

This proposed legislation requires a tax be assessed starting January 1, 2022 on a qualifying higher education institution's endowment of 1.9% annually. DOF notes that the collection of the tax would be in Fiscal Year 2023 when the tax returns are filed. Using Washington University information this would result in a tax:

Fiscal Year 2022	\$0
Fiscal Year 2023	\$161,296,624 (\$8,489,296,000 * 1.9%)
Fiscal Year 2024	\$161,296,624

Officials from **EPARC** state this proposed legislation, in 2022, would create a tax on a higher education institution's endowments at a rate of 1.9% should the institution be affiliated with abortion facilities.

EPARC states the following table shows the top ten (10) endowments in the state of Missouri in terms of amount, the affiliated college or university and the amount of tax that would be collected should the institution affiliate with abortion facilities.

Institution	Endowment	Endowment Tax @1.9%
Washington University	\$7,953,986,000	\$151,125,734
UM System	\$1,823,686,000	\$34,650,034
St. Louis University	\$1,252,678,000	\$23,800,882
College of the Ozarks	\$476,624,000	\$9,055,856
Columbia College	\$168,869,000	\$3,208,511
St. Louis College of Pharmacy	\$144,776,000	\$2,750,744
Lindenwood University	\$143,400,000	\$2,724,600
Webster University	\$139,792,000	\$2,656,048
Cottey University	\$110,200,000	\$2,093,800
Drury University	\$96,517,000	\$1,833,823
TOTAL	\$12,310,528,000	\$233,900,032

Since any of these institutions may affiliate with abortion facilities in the future, we may consider this estimate a maximum impact estimate. The endowments tax portion of this proposed legislation may generate as much as \$233,900,032 in Fiscal Year 2023 and every year beyond.

Oversight notes this proposed legislation would, for all tax years beginning on or after January 1, 2022, impose a tax on the endowment of a qualifying institution of higher education at a rate of one and nine-tenths percent (1.9%) of the aggregate fair market value of the assets of such endowment.

Oversight notes a “Qualifying Institution of Higher Education” is defined as “an institution of higher education that: is affiliated with, or provides medical faculty to, any abortion facility, offers specific medical residencies or fellowships that offer training in performing or inducing abortions, or supports in any manner any abortion facility where abortions are performed or induced when not necessary to save the life of the mother.”

Oversight notes, any institution that becomes a qualifying institution of higher education on or after January 1, 2022 shall remain subject to the tax regardless of whether such institution no longer meets the definition of a qualifying institution of higher education.

The revenues generated from the tax imposed on the fair market value of the endowments of qualifying institutions of higher education shall be deposited into GR.

Oversight notes, per B&P's and DOR's response, Washington University would be the only institution that would become a qualifying institution. Oversight notes, per information published in [Washington University's annual reports](#) (2011 – 2020), Washington University's Endowment's had a market value of the following amount(s) per fiscal year:

Fiscal Year	Endowment Value (Rounded)	% Change
2011	\$ 4,500,000,000	-
2012	\$ 5,300,000,000	18%
2013	\$ 5,700,000,000	8%
2014	\$ 6,700,000,000	18%
2015	\$ 6,900,000,000	3%
2016	\$ 6,500,000,000	-6%
2017	\$ 7,200,000,000	11%
2018	\$ 7,700,000,000	7%
2019	\$ 8,100,000,000	5%
2020	\$ 8,500,000,000	5%
10-Year Average % Change		8%
5-Year Average % Change		4%

Oversight notes the ten (10) year average percent change (increase) totals eight percent (8%). Oversight notes, though, that the five (5) year average (2016-2020) percent change (increase) totals four percent (4%).

Oversight estimates, then, using the lesser of the two (2) aforementioned averages, if Washington University's Endowment grows at an average four percent (4%) per fiscal year, that Washington University's Endowment will have the following market value in future years:

Fiscal Year	Estimated Fair Market Value of Washington University's Endowment
2021	\$8,840,000,000
2022	\$9,193,600,000
2023	\$9,561,344,000
2024	\$9,943,797,760
2025	\$10,341,549,670
2026	\$10,755,211,657
2027	\$11,185,420,124

Oversight assumes, then, if a tax of 1.9% is imposed on the market value of the endowment, that the tax collected per fiscal year would total:

Fiscal Year	Estimated Fair Market Value of Washington University's Endowment	Estimated Endowment Tax Collections (1.9%)
2021	\$8,840,000,000	-
2022	\$9,193,600,000	-
2023	\$9,561,344,000	\$181,665,536.00
2024	\$9,943,797,760	\$188,932,157.44
2025	\$10,341,549,670	\$196,489,443.74
2026	\$10,755,211,657	\$204,349,021.49
2027	\$11,185,420,124	\$212,522,982.35

Oversight notes the first tax year that qualifying institutions of higher education would be subject to the tax created is Tax Year 2022. **Oversight** assumes Tax Year 2022 tax return(s) would not be filed until after January 1, 2023. Therefore, **Oversight** assumes revenues from the Endowment Tax would begin in Fiscal Year 2023.

For purposes of this fiscal note, **Oversight** will report a revenue gain to GR equal to a range beginning with the amount estimated by B&P and DOR, to an amount(s) that “could exceed” (taking into consideration larger amount(s) of growth to Washington University’s endowment & additional qualifying institutions that become qualifying institutions in the future) the amount(s) estimated by **Oversight** which assumes a four percent (4%) annual increase to the market value of Washington University’s endowment.

Officials from the **University of Central Missouri** anticipate a fiscal impact but is unable to determine the impact at this time.

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. 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 SOS for administrative rules is less than \$5,000. SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, 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 SOS can sustain with SOS’s core budget. Therefore, 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 proposed legislation. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process.

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

Oversight assumes JCAR will be able to administer any rules from this proposed legislation with existing resources.

Officials from the **Missouri Attorney General's Office**, the **Missouri Department of Higher Education and Workforce Development**, the **Missouri Department of Health and Senior Services**, the **University of Missouri**, the **Missouri State University**, the **State Technical College of Missouri**, and the **St. Charles Community College** do not anticipate this proposed legislation will cause a fiscal impact on their organizations. Oversight does not have any information to the contrary. Therefore, Oversight will not report a fiscal impact for these organizations.

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2027)
GENERAL REVENUE FUND				
<u>Revenue Reduction – Section 143.011 – Individual Income Tax Rate Reduction</u>	(\$74,715,610)	(\$177,600,049)	(\$176,897,840)	(\$176,236,037)
<u>Revenue Gain – Tax On Endowment Of Qualifying Institutions Of Higher Education</u>	\$0	<u>Up to \$161,296,624 to could exceed \$181,665,536</u>	<u>Up to \$161,296,624 to could exceed \$188,932,157</u>	<u>Up to \$161,296,624 to could exceed \$212,522,982</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$74,715,610)</u>	<u>Up to (\$16,303,425) to could exceed \$4,065,487</u>	<u>Up to (\$15,601,216) to could exceed \$12,034,317</u>	<u>Up to (\$14,939,413) to could exceed \$36,286,915</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2027)
	<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

For all tax years beginning on or after January 1, 2022, this act reduces the top rate of tax by 0.17%, with an eventual top rate of tax of 4.93%. Such reduction in the top rate of tax shall only occur if one or more institutions is subject to the tax on the endowments of higher education institutions imposed under this act. (Section 143.011)

For all tax years beginning on or after January 1, 2022, this act imposes a tax on the endowments of qualifying institutions of higher education 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 higher education institutions that 1) are affiliated with, or provide medical faculty to, any abortion facility, 2) offer specific medical residencies or fellowships that offer training in performing or inducing abortions, or 3) support in any manner any abortion facility where abortions are performed or induced when not necessary to save the life of the mother. Any institution that becomes a qualifying institution of higher education on or after January 1, 2022, shall remain subject to the tax imposed by the act regardless of whether such institution no longer meets the definition of qualifying institution of higher education as defined in the act.

All revenues generated by the endowment tax shall be deposited in the General Revenue Fund. (Section 146.200)

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

Missouri Attorney General's Office

Office of Administration – Budget & Planning Division

Missouri Higher Education and Workforce Development

Missouri Department of Health and Senior Services

Missouri Department of Revenue

Missouri Secretary of State's Office

Joint Committee on Administrative Rules

University of Missouri's Economic & Policy Analysis Research Center

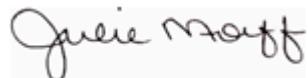
University of Missouri

Missouri State University

State Technical College of Missouri

University of Central Missouri

St. Charles Community College



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