

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2473S.01I
 Bill No.: SB 522
 Subject: Taxation and Revenue - Income
 Type: Original
 Date: March 24, 2021

Bill Summary: This proposal would modify provisions relating to the deduction of federal taxes paid.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue Fund*/**	Could exceed (\$20,408,809)	(Unknown)	\$0
Total Estimated Net Effect on General Revenue	Could exceed (\$20,408,809)	(Unknown)	\$0

*Oversight notes the fiscal impact of (\$20,408,809) in Fiscal Year 2021 represents the State of Missouri not collecting state income tax on the **second** round of federal stimulus refunds distributed in 2020. This is not a loss of current funding or a new expense, but rather a non-collection (forgone income) of a potential one-year windfall of income taxes.

** Oversight notes the fiscal impact of (Unknown) in Fiscal Year 2022 represents the State of Missouri not collecting state income tax on the **third** round of federal stimulus refunds distributed in 2021. The impact(s) cannot currently be estimated. However, this too is not a loss of current funding or a new expense, but rather a non-collection (forgone income) of a potential one-year windfall of income taxes.

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

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on FTE	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 2021	FY 2022	FY 2023
Local Government	\$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 an amount that could exceed \$20,390,525. B&P notes that this proposed legislation is only expected to impact TSR in Fiscal Year 2021 and in Fiscal Year 2022. Furthermore, this proposed legislation may impact the calculation under Article X, Section 18(e).

Section(s) 143.121 & 143.171 – Additions to Federal Adjusted Gross Income and Federal Income Tax Deduction

Officials from **B&P** state **Section B** contains an emergency clause. For the purpose of this fiscal note, B&P will assume that, if approved, this proposed legislation will take effect before the end of Fiscal Year 2021.

Section 143.121 states that a taxpayer shall not include any federal refunds related to COVID-19 stimulus tax credits in their Missouri Adjusted Gross Income (MAGI). B&P notes that individuals who itemize their tax deductions may be required to include federal tax refunds within their MAGI. This provision would exclude refunds due to the COVID-19 stimulus tax credit from this requirement. B&P further notes that this would exempt both the tax credit rebates from the Coronavirus Response & Relief Supplemental Appropriation Act (December 2020) and any potential future rebates.

B&P notes that there have been two (2) COVID related economic stimulus payments thus far. B&P further notes that [SB 676 \(2020\)](#) previously exempted the first tax credit/stimulus payments resulting in a federal income tax refund from inclusion in a taxpayer's MAGI. Therefore, this proposed legislation would exempt the second round of payments/credits and any future potential credits/payments.

Section 143.171 would allow taxpayers to add their COVID-19 stimulus tax credit amount back to their final federal tax due amount, for the purpose of taking the Missouri Federal Income Tax (FIT) Deduction. B&P notes that typically anything that reduces federal income taxes due would also reduce the Federal Income Tax Deduction amount. B&P further notes that this would exempt both the tax credit rebates from the Coronavirus Response & Relief Supplemental Appropriation Act (December 2020) and any potential future rebates.

B&P notes that there have been two (2) COVID related economic stimulus payments thus far. B&P further notes that SB 676 (2020) previously exempted the first tax credit/stimulus payments from inclusion in a taxpayer's FIT deduction. Therefore, this proposed legislation would exempt the second round of payments/credits and any future potential credits/payments.

B&P also notes that only the portion of the tax credits that are claimed on a taxpayer’s federal final annual return (i.e. any amount of the credit not directly mailed) would lower the taxpayer’s federal tax liability. This would then lower the taxpayer’s Missouri FIT deduction, causing an increase to their Missouri tax liability. For example: If an individual received a direct payment of \$600 for himself or herself, but qualified for an additional \$600 then that individual’s federal income tax liability could be lowered by the additional \$600 rebate they claim when they file their federal 2020 tax return. This in turn could lower their Missouri FIT deduction. The \$600 direct payment that the taxpayer received is treated as a non-taxable transfer payment. The direct payment will not impact a taxpayer’s federal tax liability and will thus not impact a taxpayer’s Missouri FIT deduction.

The second stimulus payments/credits are \$600 per taxpayer plus an additional \$600 per dependent under age 17. The payments begin to phase-out based on a taxpayer’s federal adjusted gross income. For taxpayers filing single, the credit begins to phase out at \$75,000. For married taxpayer filing a joint return, the credit begins to phase out at \$174,000. For taxpayers filing as head of household, the credit begins to phase out at \$124,500. B&P estimates that single returns claim an average of 1.42 children, married filing joint returns claim an average of 2.02 children, and head of household returns claim an average of 1.48 children. Table 1 shows the tax credit, income phase out, and the estimated average tax credit for Missouri taxpayers.

Table 1: Economic Impact Payments – 2nd round

Filing Status	Max Base Income	Base Credit	Credit Per Dependent	Avg Number of Dependents*	Estimated Avg Credit	Final Phase-Out Income (no dependents)	Final Phase Out Income (avg # dependents)
Single	\$75,000	\$600	\$600	1.42	\$1,452.00	\$87,000	\$104,020
Married Filing Joint	\$150,000	\$1,200	\$600	2.02	\$2,412.00	\$174,000	\$198,220
HOH	\$112,500	\$600	\$600	1.48	\$1,488.00	\$124,500	\$142,240

*Based on tax year 2017 Missouri return data.

Based on information published by the Washington Post, the total number of expected payments for the second stimulus is 158 million and approximately 20 million individuals will be required to apply for the tax rebate on their annual tax return in order to receive their stimulus payment. Therefore, B&P assumes that 12.7% of taxpayers nationally could have their federal tax liability lowered due to the rebate. For the purpose of this fiscal note, B&P will assume that 12.7% of Missouri taxpayers will also receive their stimulus payments as a rebate on their tax return.

Using 2018 tax year data, the most recent complete year available, and adjusting for [SB 509 \(2014\)](#) and HB 2540 (2018), B&P estimates that this provision could reduce General Revenue (GR) by \$20,390,525. B&P notes that this estimate only includes qualifying individuals who did

not receive a direct stimulus payment. There may be more individuals who receive a partial rebate on their final return, if they were entitled to a larger direct payment than what was originally received. Therefore, this proposed legislation could decrease TSR by more than the estimate shown above.

For the purpose of this fiscal note, B&P will assume that taxpayers will claim the exemption on their 2020 tax returns during Fiscal Year 2021. Therefore, B&P estimates that this proposed legislation may reduce TSR and GR by an amount that could exceed \$20,390,525 in Fiscal Year 2021. However, B&P notes that some individuals may have to amend their 2020 tax return after the start of Fiscal Year 2022. While B&P will reflect the full loss to TSR and GR in Fiscal Year 2021, there may be some carry over into Fiscal Year 2022.

B&P also notes that it is unknown whether there will be additional stimulus packages passed during the 2021 tax year. Therefore, this proposed legislation may have an unknown impact in Fiscal Year 2022, when Tax Year 2021 returns are filed. Therefore, B&P estimates that this proposed legislation may reduce TSR and GR by an amount that could exceed \$20,390,525 in Fiscal Year 2021. This proposed legislation may reduce TSR and GR by an unknown amount in Fiscal Year 2022. This proposed legislation is not expected to have an impact beyond Fiscal Year 2022.

Officials from the **Missouri Department of Revenue (DOR)** state in response to the COVID pandemic, the U.S. Congress authorized the Internal Revenue Service to make economic stimulus payments to taxpayers. The first round of the economic stimulus payments were issued beginning in April 2020. A second round was distributed starting in December 2020. These were issued by the IRS as tax credits against taxpayer's 2020 tax return. It was the intention of the U.S. Congress to make these stimulus payments tax free at the federal level.

However, due to the way Missouri's federal Income Tax (FIT) Deduction works, items that decrease the federal income tax would reduce the Missouri FIT deduction which would cause an increase in a taxpayer's Missouri tax liability. The intent of this proposed legislation is to exclude these payments from the Missouri FIT calculation and not impact a taxpayer's tax liability.

SB 676 (2020) previously exempted the first economic stimulus payments that were issued in April 2020, from inclusion in a taxpayer's FIT deduction. This proposed legislation would exempt the second round of economic stimulus payments that began being distributed in December 2020, and ensure that any future payments that are issued because of the COVID pandemic are exempted also.

DOR notes that many of the economic stimulus payments were mailed directly to taxpayers. These direct payments do not impact a taxpayer's federal liability and are not subject to the Missouri FIT deduction.

However, in some instances individuals may have qualified for an economic stimulus payment and have not received them through direct payment. As an example, the IRS announced that qualifying widows and widowers would be required to file their 2020 tax return to claim the stimulus payment. Additionally, some parents who did not get the amount they qualify for because of the children they report as dependents could also be required to complete their 2020 to get their stimulus payment. The requirement to file the 2020 tax return to receive the stimulus payment would trigger the taxability of the payment under the Missouri FIT deduction.

The second stimulus payments, which were issued in December 2020, are \$600 per taxpayer plus an additional \$600 per dependent under age 17. The payments begin to phase-out based on a taxpayer's federal adjusted gross income. For taxpayers filing single, the credit begins to phase out at \$75,000 and those over \$87,000 are not eligible. For married taxpayers filing a joint return, the credit begins to phase out at \$150,000 and those over \$174,000 are not eligible. For taxpayers filing as head of household, the credit begins to phase out at \$112,500 and those over \$124,500 are not eligible.

DOR estimates that single returns claim an average of 1.42 children, married filing joint returns claim an average of 2.02 children, and head of household returns claim an average of 1.48 children. Table 1 shows the tax credit, income phase out, and the estimated average tax credit for Missouri taxpayers.

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*Based on tax year 2017 Missouri return data.

Based on information published by the Washington Post, the total number of expected payments for the second stimulus is 158 million and approximately 20 million of those taxpayers will be required to apply for the stimulus payment on their 2020 federal tax return in order to receive their payment. Therefore, DOR assumes that 12.7% of taxpayers nationally could have their federal tax liability lowered due to the rebate. For the purpose of this fiscal note, DOR used the 12.7% figure as the number of Missouri taxpayers who will also receive their stimulus payments as a rebate on their tax return.

Using 2018 tax year data, the most recent complete year available, and adjusting for SB 509 (2014) and HB 2540 (2018), DOR estimates that this provision could reduce GR by \$20,408,809. DOR notes that this estimate only includes qualifying individuals who did not receive a direct stimulus payment. There may be more individuals who receive a partial rebate on their final return, if they were entitled to a larger direct payment than what was originally received. Therefore, this proposed legislation could decrease TSR by more than the estimate shown above.

For the purpose of this fiscal note, DOR assumes that these second round stimulus payments will all be claimed on the 2020 federal tax return and impact the Missouri 2020 tax year returns (being filed starting in January 2021). DOR is unable to predict if any additional economic stimulus payments will be issued by the IRS during the 2021 tax year. Therefore, this proposed legislation is estimated to have an unknown impact in Fiscal Year 2022, when Tax Year 2021 returns are filed. Therefore, DOR assumes this proposed legislation may reduce TSR and GR by an amount that could exceed \$20,408,809 in Fiscal Year 2021. This proposed legislation may reduce TSR and GR by \$0 (no additional stimulus payments are issued) to an unknown amount in Fiscal Year 2022. This proposed legislation is assumed to not have an impact beyond Fiscal Year 2022.

Officials from the **University of Missouri's Economic & Policy Analysis Research Center (EPARC)** state, if enacted, this proposed legislation would assure that federal income tax refunds attributable to COVID-19 pandemic stimulus checks are not included in taxpayers' Missouri Adjusted Gross Income or considered in the calculation of Missouri taxpayers' Federal Income Tax Deduction.

EPARC is under the impression that COVID-19 pandemic stimulus amounts will not be included in taxpayers' Federal Adjusted Gross Income or considered in the calculation of Federal Tax Due, therefore will not be included in Missouri Gross Income or considered in the calculation of Missouri taxpayers' Federal Income Tax Deduction.

Oversight notes, it is assumed that the impact(s) of COVID-19 stimulus credits are in relation to the taxpayers that qualified for such stimulus but did not receive such by a check or direct deposit. Rather, such individuals must first file the applicable tax return(s) to receive such stimulus, at which point such stimulus **would** impact their federal tax liability/refund resulting in associated impact(s) to Missouri's Individual Income Tax.

Oversight notes B&P and DOR assume the impact of the second stimulus package ([Consolidated Appropriations Act](#)) could have an impact in Fiscal Year 2022 should:

- This proposed legislation be signed into law after taxpayers have already filed their Tax Year 2020 tax returns; resulting in such taxpayers amending their Tax Year 2020 tax return(s) in Fiscal Year 2022 or,
- Additional economic stimulus payments are issued during Tax Year 2021; Tax Year 2021 tax returns would not be filed until after January 1, 2022 (Fiscal Year 2022).

Oversight notes the estimate(s) provided by B&P and DOR were calculated using an internal tax model that contains 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 and DOR.

Oversight notes the analyses provided by B&P and DOR are specific to the Consolidated Appropriations Act and were completed **prior** to the passage of the “[American Rescue Plan Act of 2021](#)” by the U.S. Congress in March, 2021.

Oversight notes, per the American Rescue Plan Act of 2021, eligible individuals were/are permitted to receive a “rebate amount” equal to \$1,400 per taxpayer or \$2,800 in the case of married individuals **plus** an amount equal to \$1,400 multiplied by the number of dependents of the taxpayer(s).

Oversight notes, per the American Rescue Plan Act of 2021, eligible individuals can receive the rebate amount in full so long as the taxpayer’s adjusted gross income does not exceed: \$75,000 for individuals filing single, \$150,000 for individuals filing married and individuals filing as a surviving spouse, and \$112,500 for individuals filing head of household.

If the aforementioned adjusted gross income amount(s) are exceeded, the amount of rebate shall be reduced.

Oversight assumes, since the rebates of the American Rescue Plan Act of 2021 were/are being issued during Tax Year 2021, any fiscal impact(s), as it relates to Missouri’s Individual Income Tax, as a result of, and specific to, the American Rescue Plan Act of 2021, would not be recognized until eligible individuals file their Tax Year 2021 tax returns after January 1, 2022 (Fiscal Year 2022).

Oversight assumes any fiscal impact(s), in relation to the most recent rebate payments, would be specific to the rebate payments **not** made directly to taxpayers in the form of a check or direct deposit. Rather, the impact would be the result of any taxpayer(s) who does not receive the rebate payment(s) by check or direct deposit or received a partial amount, but qualifies for such rebate payment(s), in which such amount(s) would be received when such individual(s) file such federal taxes for Tax Year 2021.

Oversight is unaware of existing data that indicates how many individuals, if any, must file their Tax Year 2021 federal taxes to receive the rebate payment as a result of the American Rescue Plan Act of 2021.

Oversight assumes, also, that the possibility exists for individuals who did receive, what such individuals expected to be, the rebate payment in full, to receive additional rebate when such individual(s) file their federal tax returns for Tax Year 2021. For example, should such

individual(s) have a child during Calendar Year 2021, the IRS may award additional rebate for such child.

For purposes of this fiscal note, **Oversight** will assume the fiscal impact of the **Consolidated Appropriations Act** will occur in Fiscal Year 2021. Oversight will report the revenue reduction, equal to an amount that “Could exceed” DOR’s estimate of \$20,408,809, in Fiscal Year 2021.

Oversight will report a revenue reduction in Fiscal Year 2022 as a result of the following:

- This proposed legislation becomes law after taxpayers have already filed their Tax Year 2020 Missouri tax returns, in which such individuals will amend such tax filing(s) to receive the additional benefit of this proposed legislation, and
- The impact(s) associated with the American Rescue Plan Act of 2021.

<u>FISCAL IMPACT – State Government</u>	FY 2021	FY 2022	FY 2023
GENERAL REVENUE FUND			
<u>Revenue Reduction – Section(s) 143.121 & 143.171 Exclusion/Add-Back Of Any COVID-19 Tax Credit(s) When Calculating MAGI and FIT Deduction</u>	<u>Could exceed (\$20,408,809)</u>	<u>(Unknown)</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>Could exceed (\$20,408,809)</u>	<u>(Unknown)</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2021	FY 2022	FY 2023
	<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

Current law allows a taxpayer to deduct from his or her Missouri adjusted gross income a portion of his or her federal income taxes paid, exempting federal income tax credits received for the 2020 tax year under the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act when determining the amount of federal income tax liability allowable as a deduction. This act also exempts subsequent COVID-19-related tax credits from the determination of the amount of federal income tax liability allowable as a deduction. (Section 143.171)

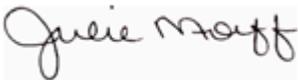
Current law also requires taxpayers who itemize deductions to include any federal income tax refund amounts in his or her Missouri adjusted gross income if such taxpayer previously claimed a deduction for federal income tax liability on his or her Missouri income tax return. This act provides that any amount of any federal income tax refund attributable to COVID-19-related tax credits shall not be included in the taxpayer's Missouri adjusted gross income. (Section 143.121)

This act contains an emergency clause.

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 24, 2021



Ross Strobe
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March 24, 2021