

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2732S.02C
Bill No.: SCS for SB 604
Subject: Taxation and Revenue - Income; Kansas City; Saint Louis City
Type: Original
Date: April 5, 2021

Bill Summary: This proposal modifies provisions relating to earnings tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue*	Less than \$373,548 to \$431,946	\$0 to Unknown	\$0 to Unknown
Total Estimated Net Effect on General Revenue	Less than \$373,548 to \$431,946	\$0 to Unknown	\$0 to Unknown

*A reduction in earnings tax collections (or larger earnings tax refunds), would reduce the amount of deductions used in calculating Missouri's income tax, thereby increasing state income tax collections. At a current tax rate of 5.4%, if \$4.63 million of earnings tax refunds are issued, this may equate to a positive impact to the state of over \$250,000. For FY22, \$6.92 million to \$7.99 million was used to calculate the amount of savings for the state from tax refunds.

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

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
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 2022	FY 2023	FY 2024
Local Government*	\$0 or Less than (\$67,314,390)	\$0 or (Unknown)	\$0 or (Unknown)

*The fiscal impact depends upon the number of workers (taxpayers) telecommuting or working remotely. Work circumstances in future years may be very different than 2020/2021.

FISCAL ANALYSIS

ASSUMPTION

In response to a previous version, officials from the **Office of Administration - Budget and Planning (B&P)** stated this proposal would exempt nonresident workers of Kansas City and St. Louis City from their 1% earnings tax, for the days that the nonresidents worked remotely.

B&P notes that currently Kansas City is already exempting nonresident remote workers from the earnings tax for the days that nonresident employee worked remotely. Therefore, B&P assumes that this proposal will not impact earnings tax revenues in Kansas City.

B&P notes that St. Louis City is not exempting nonresident income for days that the nonresident worked remotely.

Based on data published by the U.S. Census Bureau, 57.1% of St. Louis City residents are employed within city. Based on data previously published by the Missouri Economic Research and Information Center (MERIC), approximately 5.8% of workers in St. Louis reside in Illinois. Therefore, B&P estimates that approximately 37.1% of St. Louis City workers reside within Missouri, but outside of St. Louis City.

Using data published by St. Louis City¹, B&P determined that earnings tax collections for FY20 was \$156,910,000. Therefore, B&P estimates that of the \$156,910,000 approximately \$89,595,610 comes from St. Louis City residents who work within the city, \$9,100,780 comes from Illinois residents, and \$58,213,610 comes from Missouri residents outside of St. Louis City. B&P notes that city residents would still be liable for the tax because of their residency status. Therefore, B&P estimates that this provision could reduce St. Louis City earnings tax by \$67,314,390 (\$156,910,000 total earning tax - \$89,595,610 St. Louis City residents).

B&P notes that some taxpayers claim the amount of earnings tax paid to St. Louis City in their itemized deductions. Based on information provided by DOR, B&P determined that 12% of Missouri taxpayers itemize their deductions. B&P further notes that residents outside of Missouri are not liable for Missouri income tax on the days where they worked remotely. Therefore, B&P estimates that \$6,917,558 to \$7,999,009 [(\$58,213,610 MO residents x 12%) + (\$0 to \$9,100,780 Illinois residents x 12%)] in deductions would no longer be claimed on Missouri's individual income tax.

¹ <https://www.stlouis-mo.gov/government/departments/comptroller/documents/current-comprehensive-annual-financial-report.cfm>, FY20 CAFR – Table 9, page 213

However, deductions do not impact revenues on a dollar for dollar bases, but rather in proportion to the top tax rate applied. B&P notes that the top income tax rate for tax year 2020 is 5.4%. Therefore, B&P estimates that this provision could increase state tax collections by \$373,548 to \$431,946 for tax year 2020. B&P notes that this provision would not become effective until August 28, 2021, which is after tax year 2020 income tax returns are filed. B&P also notes that nonresident workers have up to one year to apply for an earnings tax refund from St. Louis City.

B&P is unable to determine the number of working days that nonresidents worked remotely; therefore, the estimates above reflect the maximum amount of revenue impacts to St. Louis City and state general revenue.

Therefore, B&P assumes that this provision may increase Total State Revenues (TSR) and GR by less than \$373,548 to \$431,946 in FY22. This provision may reduce St. Louis City earnings tax revenue by less than \$67,314,390 in FY22. This provision may have an unknown impact in future tax years and impact the calculation under Article X, Section 18(e).

Oversight notes the 12% itemized deduction percentage used by B&P is a rounded percentage. B&P stated to **Oversight** that the percentage is closer to 11.88% in the calculation of their numbers above. **Oversight** does not have information to the contrary and therefore, **Oversight** will reflect the estimates as provided by the B&P.

In response to a previous version, officials from **St. Louis City** stated the Earnings Tax is the City's single largest source of revenue amounting to over a third of the general fund budget. Total receipts in FY2020 exceeded \$175M. The proposed legislation would eliminate the Earnings Tax on nonresidents of the City who telecommute or work remotely. While there is no definitive total of the portion of the Earnings Tax this would represent, it is fair to assume that with approximately half or more of earnings tax receipts coming from non-residents, the subset of these who telecommute particularly in a year which encompassed a pandemic would be substantial. A loss of revenue of this magnitude would be a devastating blow to the City's credit and fiscal condition, and would seriously impair the City's ability to provide basic City services. The following illustration shows the order of magnitude of these Earnings tax receipts:

1/2 Earnings Tax receipts are:

- Over half the total of the FY20 general fund expenditure of the Police Department at \$167.5M

Or:

- More than the entire Fire Department budget at \$64.3M

Or about equivalent to the costs of these services:

- Corrections and Juvenile Detention: \$46.6M
- Forestry Division trimming, weeding, and debris: \$7.9M
- Park Maintenance: \$8.5M
- Street Maintenance and Repair: \$7.1M

- Street and Alley Lighting: \$9.6M
- Building Code Compliance and Permits: \$7.9M

The potential loss of revenue in the range of \$90M annually would jeopardize the City's ability to maintain basic City services.

In addition to General Revenue, there would be a similar negative impact on all TIF developments which utilized a portion of the Earnings tax receipts in its financings, an amount which totaled \$5.5M in FY20.

Oversight does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by the B&P for the City of St. Louis.

Officials from the **Department of Revenue** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for this agency.

In response to a previous version, officials from the **Department of Labor and Industrial Relations**, the **Joint Committee on Administrative Rules** and the **Office of the Secretary of State** each assumed the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE			
<u>Savings</u> – calculation of deductions relating to earnings tax	Could exceed <u>\$373,548 to \$431,946</u>	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	Could exceed \$373,548 to \$431,946	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue loss</u> – potential loss in revenue from eliminating the Earnings Tax on nonresidents of St. Louis City who telecommute or work remotely	\$0 or Less than <u>(\$67,314,390)</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	\$0 or Less than <u>(\$67,314,390)</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>

FISCAL IMPACT – Small Business

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

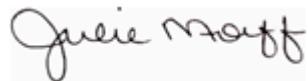
FISCAL DESCRIPTION

Current law authorizes the cities of Kansas City and St. Louis to levy an earnings tax, which is imposed in part on salaries, wages, commissions, and other compensation earned by nonresidents of the city for work done or services performed or rendered in the city. For all tax returns filed on or after January 1, 2021, this act provides that "work done or services performed or rendered in the city" shall not include any work or services performed or rendered through telecommuting or otherwise performed or rendered remotely unless the location where such work is performed is located in the city. Any taxpayer denied a refund for taxes paid for such work or services not performed or rendered in the city may bring a cause of action in a court of competent jurisdiction, and such taxpayer shall recover reasonable attorney's fees resulting from such cause of action.

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 and Planning
St. Louis City
Department of Revenue
Joint Committee on Administrative Rules
Office of the Secretary of State
Department of Labor and Industrial Relations



Julie Morff
Director
April 5, 2021



Ross Strope
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April 5, 2021