COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3714H.06C
Bill No.: HCS for SCS for SB 908
Subject: Taxation and Revenue - General; Taxation and Revenue - Sales and Use; Taxation and Revenue - Property; Political Subdivisions; Cities, Towns, and Villages; Counties; Department of Revenue
Type: Original
Date: April 26, 2022

Bill Summary: This act modifies provisions relating to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue*	(Less than $1,000,932,338)	(Less than $62,694)	(Less than $63,654)
Total Estimated Net Effect on General Revenue	**(Less than $1,000,932,338)**	**(Less than $62,694)**	**(Less than $63,654)**

* (§2) - Includes $1 billion tax credit and the cost to process the refunds per DOR's estimate (currently in Perfected HCS for HB 3021).

* (§92.111) - 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 5.3%, 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 FY23, $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 2023	FY 2024	FY 2025
Blind Pension Fund (0621)*	$0	Unknown to (Unknown)	Unknown to (Unknown)
Total Estimated Net Effect on Other State Funds	**$0**	**Unknown to (Unknown)**	**Unknown to (Unknown)**

* (§137.115) Based on information from the State Tax Commission, **Oversight** notes Motor Vehicles represent 12.66% of the assessed value in the state, approximately $16,238,832,515. If this proposal reduced the assessed value by 5%, Oversight estimates the impact to the Blind Pension Fund would be a loss in revenue of $243,582 (($811,941,626/100) *.03). Depending upon decisions/actions of county assessors, Oversight assumes it is possible the reduction in assessed value could result in a loss of revenue that would exceed the $250,000 threshold.
Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**1 FTE**	**1 FTE**	**1 FTE**

☒ 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 2023	FY 2024	FY 2025
Local Government*	**$0 or (Less than $87,314,390)**	**Unknown to (Unknown, could exceed $20,000,000)**	**Unknown, to (Unknown, could exceed $20,000,000)**

*(§92.111) 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

§§67.457, 67.461, 67.1305, 67.1421, 67.1431, 67.1471, 99.825, 99.830, 99.865, 238.212 & 238.222 – Special Taxing Districts

Officials from the **Department of Revenue (DOR)** assume this proposal requires that neighborhood improvement districts, community improvement districts, redevelopment districts and transportation authority districts send certain specified documents to the DOR. The required information includes:

Updated boundary information
Description of the boundaries and the average assessment
Copies of the establishment of the district paperwork
Copies of dissolution paperwork should a district be dissolved
Copies of all meeting notices, hearing and ordinances.

Information received by the DOR is to be posted on the website. DOR notes collecting this information is outside the scope of DOR's work. DOR notes this would require the creation of a webpage that citizens could use to view these documents. DOR staff would create and maintain the webpage. DOR would establish an email address for the acceptance of the documents. The creation of the webpage and setting up of the email will be done with existing DOR resources.

From working with numerous special districts around the state DOR knows that many of these required notices will be sent via paper instead of email. Based on the number of documents filed, DOR will need 1 FTE Public Relations Specialist FTE to handle these duties. Should additional paperwork be sent justifying additional FTE, DOR will seek those FTE through the appropriation process.

Oversight does not have information to the contrary and therefore, Oversight will reflect the estimated FTE costs s as provided by the DOR.

For informational purposes, **Oversight** notes the following number of taxing authorities for the last 5 years from the State Auditor Property Tax Rate Report.

	FY21	FY20	FY19	FY18	FY17
Ambulance Districts	106	106	106	106	105
Hospitals	11	11	12	12	13
Nursing Home Districts	30	30	30	30	30
Public Water Supply Districts	1	1	1	1	1
Soil & Water Conservation Subdistricts	27	27	27	27	27
Drainage and Levee Districts	2	2	2	2	2
Special Road Districts	206	207	208	206	208
Municipalities	757	756	757	754	753
Tax Supported Public Libraries	79	79	79	79	79
Townships	283	283	283	283	283
Fire Protection Districts	391	388	384	380	376
Sewer Districts	7	7	7	7	7
Special Business Districts	17	17	18	18	20
Regional Recreational Districts	1	1	1	1	1
Community Improvement Districts	11	11	12	12	8
Health Centers	90	90	90	90	90
Special Road District Subdistrict	1	1	1	1	1
Extension Districts	2	1	1	1	1
Transportation Development District	1	1	1	1	1
Developmental Disabilities	0	0	0	0	4
Junior Colleges	12	12	12	12	12
Museum District	1	1	1	1	1
School Districts	495	495	495	495	495
Special School Districts	2	2	2	2	2
Counties	114	114	114	114	114
Total Types of Taxing Authorities	2647	2643	2644	2635	2634
Source: State Auditor Property Tax Rate Report					

SEQ CHAPTER \h \r 1In response to a previous version, officials from the **Office of the State Auditor**, the **City of Springfield,** the **City of Hughesville** and the **City of O'Fallon** 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.

§§67.496, 137.073 & 1 – Proposed Tax on Property in a Political Subdivision

In response to similar legislation from this year, HCS for HB 1583, officials from the **Office of the State Auditor**, the **Jackson County Board of Elections**, **City of O'Fallon**, the **City of Laclede**, **City of Springfield**, **Fruitland Area Fire Protection District** and the **Newton County Health Department** each assumed the proposal will have no fiscal impact on their respective organizations.

In response to a similar proposal, HB 1243 (2021), officials from the **Lincoln County Assessor's Office**, **City of Corder**, **Kansas City Health Department**, **Cole Camp Ambulance District**, and the **Nodaway County Ambulance District** each assumed the proposal would have no fiscal impact on their respective organizations.

In response to a similar proposal, HB 1243 (2021), officials from the **Clinton County Commissioners' Office** indicated there would be a fiscal impact from this proposal, but did not provide any additional information. Conversely, officials from the **Clinton County Clerk's Office** indicated there would not be a fiscal impact from this proposal.

Based on the majority of responses received, **Oversight** does not anticipate a fiscal impact from this part of the proposal. However, Oversight received a limited number of responses from local political subdivisions related to the fiscal impact of this proposal. Oversight has presented this fiscal note on the best information available. Upon the receipt of additional responses, Oversight will review to determine if an updated fiscal note should be prepared and seek approval to publish a new fiscal note.

§§92.111 & 92.115 – Earnings Tax

Officials from the **Office of Administration - Budget and Planning (B&P)** assume the proposal may increase Total State Revenue (TSR) by $362,435 to $419,096 in FY 23 and have an unknown impact to TSR in future years. This proposal will also impact the calculation under Article X, Section 18(e).

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. The proposal would begin with all tax returns filed after January 1, 2022. B&P notes that such tax returns would be for tax year 2021 earnings.

B&P further notes that the height of remote working, related to the COVID-19 pandemic, was tax year 2020. Tax returns for tax year 2020 would have been filed during calendar year 2021, and while non-resident workers have up to one year after a return is filed to apply for a refund from the City of St. Louis, this proposal requires the initial return to be filed during 2022 or later. Therefore, this proposal will only impact earnings during tax year 2021 or later.

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.

B&P is unable to determine the number of working days that nonresidents work remotely; therefore, the estimates below reflect the maximum amount of revenue impacts to St. Louis City and state general revenue. Actual revenue impacts per year may vary depending on the level of actual remote work that occurs.

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 MERIC (Missouri Economic Research and Information Center) 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 City[1], 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 returns.

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 2022 is 5.3%, with additional reductions scheduled to occur.

B&P notes that this proposal would not become effective until August 28, 2022, after tax year 2021 returns have been filed (April 2022). Therefore, B&P will assume that this proposal will not impact state revenues until tax year 2022 returns are filed in April 2023.

Therefore, B&P assumes that this provision may reduce St. Louis City earnings tax revenue by less than $67,314,390 in FY23. In addition, this proposal may increase general revenue by less than $362,435 to $419,096 (top tax rate 5.3%) in FY23.

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

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 similar legislation from this year, HB 1740, officials from the **City of St. Louis** 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.

Officials from the **City of Kansas City** assumed this proposal would have a negative fiscal impact in an indeterminate amount annually.

Oversight notes in a previous inquiry of the City of Kansas City from this year, HB 1740, the negative impact could be as much as $20 million annually.

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

In response to similar legislation from this year, HCS for HB 1740, officials from the **Office of the Secretary of State (SOS)** noted many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The 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 the SOS for Administrative Rules is less than $5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the 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 the office can sustain with its core budget. Therefore, the 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 proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

In response to similar legislation from this year, HCS for HB 1740, officials from the **Department of Labor and Industrial Relations** assumed 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 that agency.

§137.115 – Motor Vehicle Assessments

Officials from the **Office of Administration - Budget and Planning (B&P)** notes that the emergency clause under Section B would impact the implementation of Subsection 137.115.10. It would not impact Subsection 137.115.4 as it has an internally stated implementation date of January 1, 2023. For the purpose of this fiscal note, B&P will assume that Subsection 137.115.10 will begin July 1, 2022.

Subsection 137.115.4 would limit the property tax on specific personal property items to the Consumer Price Index for All Urban Consumers (CPI-U) beginning with tax year 2023. B&P notes this would only apply to

- Grain and other agricultural crops
- Livestock
- Historical motor vehicles
- Non-commercial historical aircraft
- Poultry
- Tools and equipment used for pollution control

- Tools and equipment used for retooling and creating new products or improving existing products, located within a state enterprise zone

B&P notes that it is unclear what this provision is limiting or how. As written, it appears to limit the property tax collected to the price index. However, the two things (property taxes and CPI-U) are not comparable. The CPI-U is the value of a basket of goods indexed to a certain point in time to show changes in the value of the basket.

B&P is unsure if, or how, this language could be implemented. Therefore, this provision may have a negative unknown impact to TSR and the Blind Pension Trust Fund.

Subsection 137.115.10 requires county assessors to arbitrarily determine the market value of motor vehicles, recreation vehicles, and farm equipment. The market value must be based on the October issue of the National Automobile Dealers' Association Official Used Car Guide. However, the market value chosen is allowed to range between the lowest amounts over three years up to the most recent October issue.

For example: 2015 truck x
- 2022 - $23,595
- 2021 - $18,150
- 2020 - $15,000

Under this proposal, a county assessor could choose any market value between $15,000 and $23,595.

B&P notes that currently assessors must use the previous year's market value. B&P further notes that the market value of such items have increased significantly in the past two years due to chip shortages and inflation.

However, because this language allows county assessors to choose the market value between the three years of data, it is unknown how many, if any, county assessors will choose to an amount other than the most recent publication (the highest amount allowed). If any county assessors choose to use the lowest market value allowed for such property during tax year 2022 then what would have otherwise been determined, this proposal could reduce TSR and funding to the Blind Pension Trust Fund.

B&P further notes that the Blind Pension Trust Fund levies a $0.03 per $100 assessed value on all property in Missouri. Therefore, this proposal may result in forgone revenues to the Blind Pension Trust Fund during FY23 (for tax year 2022). This proposal may also result in forgone collections for local property taxes during FY23 (for tax year 2022). B&P does not have enough information to determine the future potential fiscal impact beyond FY23.

Oversight assumes this proposal allows (rather than requires) (§137.115.10) the assessor to choose the value based on the current or two previous years. If an assessors chooses a value from a previous year, the value may not account for changes in the general price level or other market conditions. Therefore, there could be an unknown loss to the Blind Pension Fund and local political subdivisions.

Oversight will show a range of impact of $0 (assessor uses current year) to an unknown loss to the Blind Pension Fund and local political subdivisions.

In response to similar legislation from this year, SCS for HB 2694, officials from the **Department of Revenue** and the **Department of Social Services** 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 for this section.

In response to similar legislation from this year, HB 2694, officials from the **Lincoln County Assessor's Office** stated this would have a fiscal impact on Assessors and software vendors to find the lowest values for personal property. If it falls on the Assessor to find the lowest values on over 30,000 vehicles then it will take a lot of time and money <u>and</u> also possibly lose tax revenue as well if the values are not consistent.

In response to similar legislation from this year, SCS for HB 2694, officials from the **Howell County Assessor's Office** stated §137.115.17 states "shall not increase more than the consumer price index as established in subsection 4 of section 137.073". This will be difficult for assessment offices to manage without state funding. This could cause added cost to this proposal that must be funded by the state or it may be challenged as an unfunded mandate. Implementation cost could exceed $100,000.

Officials from the **Macon County Assessor's Office** state that tying sales/use tax increases to reducing real & personal tax assessments, will require software development that would be cost prohibitive, estimated @ $100,000. The Hancock Amendment already lowers the tax levies if assessment values increase significantly. Missouri also has the Homestead Act, which gives seniors, with income limitations, full income tax credit.

Oversight notes the Blind Pension Fund (0621) is calculated as an annual tax of three cents on each one hundred dollars valuation of taxable property ((Total Assessed Value/100)*.03). Because this proposal could limit the assessed value portion of this equation, the Blind Pension Fund could experience a decrease in revenue relative to what it would have received under current law.

Oversight assumes this proposal allows assessors to choose the lowest value based on estimates from the current year or two previous years. Oversight notes the Consumer Price Index (CPI) for all items less food and energy rose 6.0% year over year (January 2022).

Oversight assumes there could be an unknown loss to the Blind Pension Fund and local political subdivisions if assessed valuations are based on estimates unreflective of current market conditions.

Based on information from the State Tax Commission, **Oversight** notes Motor Vehicles represent 12.66% of the assessed value in the state, approximately $16,238,832,515. If this proposal reduced the assessed value by 5%, Oversight estimates the impact to the Blind Pension Fund would be a loss in revenue of $243,582 (($811,941,626/100) *.03). Oversight assumes it is possible the reduction in assessed value could result in a loss of revenue that would exceed the $250,000 threshold.

Oversight notes local property tax revenues are designed to be revenue neutral from year to year. The tax levy is adjusted relative to the assessed value to produce roughly the same revenue from the prior year with an allowance for growth. Oversight assumes some taxing entities may be able to increase the tax rate levied to make-up for the lost revenue from the reduction in assessed value.

Based on information provided by the Office of the State Auditor, Oversight notes, in 2020, there were over 2,500 tax entities with 4,000 different tax rates. Of those entities, 2,980 tax rate ceilings were below the entities' statutory or voter approved maximum tax rate and 1,098 tax rate ceilings were at the entities' statutory or voter approved maximum rate. (These numbers do not include entities which use a multi-rate method and calculate a separate tax rate for each subclass of property.)

Some taxing entities have tax rate ceilings that are at their statutory or voter approved maximum. For these taxing entities, any decrease in the assessed values would not be offset by a higher tax rate rather it would result in a loss of revenue.

Oversight assumes this proposal would limit the personal property tax of certain properties to the CPI Index. The current CPI index is 281.146 (Table 1).

Oversight assumes this was not the intent of the proposed language and is uncertain how this language would impact changes in personal property tax revenue. Oversight will show an unknown gain to an unknown loss to the Blind Pension Fund and local political subdivisions.

Oversight notes, if the intent of the language was to limit the rate of growth in assessed value to the percentage change in the CPI, this proposal would reduce the assessed value of personal property over time. Oversight notes the revenue growth in property tax is determined by the following method:

Last year's revenues plus an allowance for growth equal to either:
- Inflation;
- Growth in total assessed value, or;
- 5%, whichever is lowest.

Oversight assumes if the growth in total assessed value is the lower of the three options, then any reduction in the percentage at which personal property is assessed would reduce the maximum allowed revenue growth (relative to current law) which could potentially impact all taxing entities.

Alternatively, **if** inflation or 5% is the lower option for determining the maximum allowed revenue, the calculation of revenue growth may not be limited by the reduction in assessed personal property. However, Oversight notes property tax revenues are designed to be revenue neutral from year to year. The tax rate is adjusted relative to the assessed value to produce roughly the same revenue from the prior year with an allowance for growth. Therefore, this proposal may result in a higher tax rate relative to current law thus distributing more of the tax burden to real property owners (as personal property assessed values decrease).

Ultimately, **Oversight** is uncertain how language of this amendment would be applied, but assumes the county could incur some additional costs administering these adjustments for specific properties.

In addition, Oversight received a limited number of responses from taxing entities related to the fiscal impact of this proposal. Oversight has presented this fiscal note on the best current information available. Upon the receipt of additional responses, Oversight will review to determine if an updated fiscal note should be prepared and seek approval to publish a new fiscal note.

Although the effective date of this proposal, if passed, would be FY 2023 (August 2022), the next re-assessment cycle would not occur until calendar year 2023 with impacted revenues occurring in FY 2024 (December 2023).

§§204.603 & 204.605 – Reorganized Common Sewer Districts

In response to similar legislation from this year, HB 2391, officials from the **Office of the Secretary of State**, the **City of Springfield**, the **Jackson County Board of Elections**, the **Kansas City Board of Elections**, the **Platte County Board of Elections, Clarence Water/Wastewater**, **Hughesville Water/Wastewater**, the **Little Blue Valley Sewer District**, the **Metropolitan St. Louis Sewer District** and the **Morgan County PWSD #2**, 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.

§2 – Tax Credit

Officials from the **Office and Administration – Budget and Planning (B&P)** assume the proposal would create a non-refundable tax credit for tax year 2021. A qualified taxpayer must be an individual who filed an individual income tax return for tax year 2021 by October 17,

2022. Such individual must have a Missouri income tax liability, cannot be claimed as a dependent, and may not be an estate or trust.

For tax year 2021, qualifying individuals may receive a tax credit of up to $500 for an individual or $1,000 for a married filing combined couple. The tax credit is non-refundable, cannot be transferred or sold, and cannot be carried forward. B&P notes that because the tax credit is non-refundable and cannot be carried forward, the amount of an individual's tax credit will be limited to their state income tax liability.

The total amount of tax credits that may be authorized is $1 billion. In the event that total tax credits exceeds $1 billion, DOR must apportion all tax credits by the smallest uniform percentage such that total redemptions do not exceed the $1 billion cap.

Using 2019 tax year data, the most current complete year, there were 1,579,708 individuals who filed as single, 384,754 individuals who filed as head of household, and 1,248,788 married who filed combined returns. Accounting for income tax liability, B&P estimates that total credits claimed for the tax year 2019 would have been $1,320,433,036. Therefore, in order to remain under the $1 billion redemption cap, B&P estimates that the tax credits would have had to been apportioned to 75.7%. Using the above information, B&P estimates that the maximum tax credit for an individual would have been $378.66 and the maximum tax credit for a married couple would have been $757.33 for tax year 2019.

B&P notes that the number of filers for the tax year 2021 and an individual's tax liability may be significantly different from the number and liability for the tax year 2021. Therefore, the maximum credit may also be significantly different.

B&P assumes that all tax credits under this provision will be paid during FY23. Therefore, B&P estimates that this provision will reduce TSR and GR by $1 billion in FY23. This provision will not impact TSR beyond FY23.

Officials from the **Department of Revenue (DOR)** assume the provision would give an automatic nonrefundable tax credit to qualified taxpayers for their 2021 tax year tax return. A qualified taxpayer is one who is subject to state income tax, has a Missouri state tax liability and cannot be claimed as a dependent on another person's return. This is a one-time credit that has a $1 billion cap, is not allowed to be carried forward and cannot be sold, transferred or assigned.

This will result in a loss to general revenue of $1 billion.

The amount of the tax credit a qualified taxpayer can receive is an amount equal or less than their tax liability up to $500 per individual or $1,000 for each married filing combined return. This provision requires that if the amount claimed by all qualified taxpayers exceed the amount of the cap, then the DOR is to apportion the credit to all qualified taxpayers.

This provision allows all 2021 tax returns postmarked by October 17, 2022 to potentially be eligible for the tax credit. Since this credit has a cap and is allowed to be apportioned, the DOR would not be able to determine the credit amount until after all the 2021 tax returns that were postmarked prior to October 17, 2022 were received. This provision requires the DOR to add the tax credit to taxpayer's accounts without the taxpayer being required to submit additional paperwork. This would be a one-time adjustment to taxpayer's accounts.

It should be noted that since this is a nonrefundable tax credit, the DOR would not mail a check to those qualified taxpayers that currently have an outstanding tax liability balance with the Department. Those taxpayers would receive their credit as a downward adjustment of their outstanding balance.

The DOR assumes that starting November 1, 2022, the apportionment process would begin. The DOR is working to determine how best and most cost effective to handle the apportionment of the credit. The DOR is weighing the options of the computer being programming to handle the majority of the work or whether staff members will have to do the work manually. They estimate that if done electronically then this could cost as much as $200,000 for the computer upgrades. If done manually, it may be able to be done with existing staff but take a little longer to issue the credits.

Each year the DOR processes approximately 3,200,000 individual income tax returns. Over the last two tax years (2019 & 2020) 75% of the individual income tax filers (1,375,000) have received a refund check by direct deposit. Another 450,000 receive their refund by check and the remaining 1,375,000 owe the state money. DOR assumes that they could direct deposit into the accounts that already have direct deposit. For those that currently receive a paper check or owe money (1,825,000) DOR doesn't have direct deposit information on them and would be required under this proposal to mail them a refund check.

In order to mail the checks to those without direct deposit information, the DOR notes that the DOR will need to have the checks printed by the state data center, and the DOR would also need envelopes and postage. Postage rates are set to increase July 1, 2022, and again on January 1, 2023. DOR estimates that the total piece cost is $0.5082. That includes the increased postage rate in July of $0.4910 and the envelope cost as of 8/16/2022 (when it is expected to increase) of $0.0172. The estimated mailing cost for the checks is $930,000. The state data center expects the check printing costs are $0.057 per piece for an estimate of $104,000 for the 1,825,000 checks.

The DOR notes that would it take 2 team members running the mail machine 258 hours to get out the 1,825,000 checks. Given the DOR only has one machine and other statutorily required mailings go out each month, it could take up to eight weeks to process all the checks, without overtime being paid.

It should be noted that the DOR's existing FY 2022 appropriation authority and the estimated appropriation authority for FY 2023 does not currently include enough appropriation authority to cover the DOR's administrative costs of this proposal or the tax check amounts. Without additional appropriation authority the DOR would not be able to issue the tax credits under this proposal and the refunds issued during the course of a typical fiscal year. Therefore, DOR will likely need additional appropriation authority.

Oversight notes the latest Department of Revenue 2019 tax data shows there were 2.871M returns filed.

Number of returns	**2,871,980**
Number of single	1,380,710
Number of Joint	1,059,770
Head of Household	364,370
Total number of returns w/ tax liability	**2,051,380**

https://www.irs.gov/statistics/soi-tax-stats-historic-table-2

This would represent approximately 71.4% (2,051,380/2,871,980) who filed a return and had some type of liability in order to qualify for the tax credit under the proposal. Oversight multiplied the number of joint returns by 2 in order to extrapolate how many individuals filed returns in 2019. The table below reflects the actual individuals who filed taxes in Missouri in 2019.

Type of Return	**Individuals**
Number of single	980,304 (1,380,710 *.71)
Number of Joint	1,504,873 (1,059,770*.71*2)
Head of Household	258,703 (364,370*.71)
Total Individuals	**2,743,880**

Oversight notes the proposal allows for $1 billion in potential non-refundable tax credit. Therefore, Oversight estimates each individual could potentially receive $364 (10B / 2,743,880) or $729 for married couple in tax credits. However, Oversight notes the amount of tax credit could be lesser or exceed the projected amount depending on the total of individuals actually filing taxes for TY 2021.

Oversight notes that DOR officials assume the proposal will have a direct fiscal impact on their organization. **Oversight** notes the DOR and B&P projections are probable. Therefore, **Oversight** will reflect the $1B in revenue decrease to the general revenue, programming costs ($200,000) and mailing/postage costs ($1,034,000) in the fiscal note.

Oversight notes that Perfected HCS for HB 3021 has a $1,002,500,000 appropriation for the provisions of section 2. $1,000,000,000 for refunds and $2,500,000 for DOR administrative costs. Since HCS for HB 3021 has not yet been truly agreed and signed by the Governor, Oversight will attribute costs to this proposal.

Bill as a Whole

Other than what is noted in the above sections, officials from the **Office of Administration - Budget and Planning (B&P)** assume the rest of the sections of 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 all other sections of the proposal to B&P.

Officials from the **Department of Natural Resources** defer to the **Department of Revenue** for the potential fiscal impact of this proposal.

Other than what is noted in the above sections, officials from the **Department of Revenue (DOR)** assume the rest of the sections of 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 all other sections to DOR.

Officials from the **Missouri Department of Transportation**, the **Department of Commerce and Insurance**, the **City of Claycomo**, the **St. Louis County Board of Elections**, the **Crawford County 911 Board**, the **Pettis County Ambulance District**, the **Metropolitan St. Louis Sewer District**, the **South River Drainage District**, **St. Charles County PWSD #2**, **Wayne County PWSD #2**, the **Joint Committee on Administrative Rules**, the **State Tax Commission** each assume 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.

Other than what is noted in the above sections, officials from the **City of St. Louis** 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 all other sections.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other cities, local election authorities, counties, assessors, fire protection districts, ambulance districts and utilities were requested to respond to this proposed legislation but did not. A listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

FISCAL IMPACT – State Government	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE			
Savings – calculation of deductions relating to earnings tax (§92.111) pg.5	Could exceed $362,435 to $419,096	$0 to Unknown	$0 to Unknown
Costs – DOR (§§67.457, 67.461, 67.1421, 67.1431, 67.1471, 99.825, 99.830, 99.865, 238.212 & 238.222) pg.4			
Personal Service	($29,008)	($35,505)	($36,215)
Fringe Benefits	($22,054)	($26,698)	($26,936)
Equipment and Expense	($9,711)	($491)	($503)
Total Costs – DOR	($60,773)	($62,694)	($63,654)
FTE Change - DOR	1 FTE	1 FTE	1 FTE
Cost – B&P, DOR – non-refundable tax credit (§2) pg.16	(Up to $1,000,000,000)	$0	$0
Cost – DOR (§2) pg.16			
Programming	($200,000)	$0	$0
Mailing Costs	($1,034,000)	$0	$0
Total Costs – DOR	($1,234,000)	$0	$0
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	**(Less than $1,000,932,338)**	**Less than ($62,694)**	**Less than ($63,654)**
Estimated Net FTE Change for General Revenue Fund	1 FTE	1FTE	1 FTE
BLIND PENSION FUND			
Loss - from a change in assessed value - §137.115 pg.10	$0	$0 or (Unknown)	$0 or (Unknown)
Loss - from a change in assessed value - §137.115.4 pg.11	$0	Unknown to (Unknown)	Unknown to (Unknown)
ESTIMATED NET EFFECT ON THE BLIND PENSION FUND	**$0**	**Unknown to (Unknown)**	**Unknown to (Unknown)**

FISCAL IMPACT – Local Government	FY 2023 (10 Mo.)	FY 2024	FY 2025
LOCAL POLITICAL SUBDIVISION			
Revenue loss – potential loss in revenue from eliminating the Earnings Tax on nonresidents of St. Louis City who telecommute or work remotely (§92.111) pg.7	$0 or Less than ($67,314,390)	$0 or (Unknown)	$0 or (Unknown)
Revenue loss – potential loss in revenue from eliminating the Earnings Tax on nonresidents of Kansas City who telecommute or work remotely (§92.111) pg.8	$0 or (up to $20,000,000)	$0 or (up to $20,000,000)	$0 or (up to $20,000,000)
Cost – assessors to comply with proposal - §137.115 pg.10	$0	$0 or (Unknown)	$0 or (Unknown)
Loss - from a reduction in assessed value - §137.115 pg.10	$0	$0 or (Unknown)	$0 or (Unknown)
Loss - from a reduction in assessed value - §137.115.4 pg.11	$0	Unknown to (Unknown)	Unknown to (Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**$0 or (Less than $87,314,390)**	**Unknown to (Unknown, could exceed $20,000,000)**	**Unknown to (Unknown, could exceed $20,000,000)**

FISCAL IMPACT – Small Business

(§137.115) Oversight assumes there could be a fiscal impact to small businesses if the change in assessed value reduced the tax burden or resulted in an adjustment in the tax rate from changes to assessed values.

FISCAL DESCRIPTION

§§67.457, 67.461, 67.1421, 67.1431, 67.1471, 99.825, 99.830, 99.865, 238.212 & 238.222 – Special Taxing Districts
This act modifies provisions relating to certain special taxing districts.

NEIGHBORHOOD IMPROVEMENT DISTRICTS
Current law requires the governing body of a city or county to provide notice of a public hearing to consider the plans, specifications, and proposed assessment rolls for a neighborhood improvement district (NID), with such notice to be published in a newspaper of general circulation and mailed to each owner of real property subject to assessment within the boundaries of the NID. This act requires such notice to also be given to the Department of Revenue, which shall publish such information on its website. (Section 67.461)

This act also requires the governing body of a city or county establishing a NID to submit to the State Auditor and the Department of Revenue a description of the boundaries of the district, as well as information on assessments made in the district, as described in the act. The governing body establishing a NID shall not order any assessments on property within the district until such information is submitted. (Section 67.457)

COMMUNITY IMPROVEMENT DISTRICTS
Current law requires the governing body of a municipality to provide notice of a public hearing to establish or amend a community improvement district (CID), with such notice to be published in a newspaper of general circulation and mailed to each owner of real property within the boundaries of the CID. This act requires such notice to also be given to the Department of Revenue, which shall publish such information on its website.

This act also requires the governing body of a city or county establishing a CID to submit to the State Auditor and the Department of Revenue a description of the boundaries of the district, as well as the rates of property tax and sales tax in the district, as described in the act. The governing body establishing a CID shall not collect any taxes or assessments until such information is submitted. (Sections 67.1421 and 67.1431)

Current law also requires the governing board of a CID to provide a proposed annual budget to the governing body of the city, as well as submit a report including financial and other information to the municipal clerk and the Department of Economic Development. This act requires such information to also be sent to the Department of Revenue and the State Auditor. (Section 67.1471)

TAX INCREMENT FINANCING DISTRICTS
Current law requires a tax increment financing (TIF) commission to provide notice of a public hearing prior to the adoption of an ordinance proposing a redevelopment plan or project, with such notice to be published in a newspaper of general circulation and mailed to each owner of

real property within the boundaries of the TIF district. This act requires such notice to also be given to the Department of Revenue, which shall publish such information on its website.

This act also requires the governing body of the municipality establishing a redevelopment area to submit to the State Auditor and the Department of Revenue a description of the boundaries of the redevelopment area, estimated redevelopment project costs, and the date on which the redevelopment area terminates, as described in the act. The governing body establishing a redevelopment area shall not deposit any payments in lieu of taxes into the special allocation fund until such information is submitted. (Sections 99.825 and 99.830)

Current law also requires the governing body of a municipality to provide notice of a public hearing to be held five years after the establishment of a redevelopment plan, with such notice to be published in a newspaper of general circulation. This act requires such notice to also be given to the Department of Revenue, which shall publish such information on its website. (Section 99.865)

<u>TRANSPORTATION DEVELOPMENT DISTRICTS</u>
Current law requires a circuit clerk to provide notice to the public that a petition has been filed for the creation of a transportation development district (TDD), with such notice to be published in a newspaper of general circulation. This act requires such notice to also be given to the Department of Revenue, which shall publish such information on its website. (Section 238.212)

This act also requires the governing body of a local transportation authority establishing a district to submit to the State Auditor and the Department of Revenue a description of the boundaries of the district, as well as the rates of property tax and sales tax in the district, as described in the act. The governing body establishing a TDD shall not collect any taxes until such information is submitted. (Section 238.222)

<u>§92.111 – Earnings Tax</u>
Currently, the 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, 2022, this bill provides that "work done or services performed or rendered in the city" will 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.

<u>§137.115 – Motor Vehicle Assessments</u>
This bill specifies that as of January 1, 2023, all personal property tax assess and valued shall not exceed the Consumer Price Index for all Urban Consumers.

The bill also specifies that county assessors and the assessor of St. Louis City shall use the trade-in value published in the current or two previous years October issue of the National Automobile Dealers' Association Official Used Car Guide, or its successor publication, as the recommended guide of information for determining the true value of motor vehicles described in such publication. The assessor may assign any value that he or she deems to be the true value, provided that it is not greater than the current issue of the publication and that the value is not less than the lowest value in the current or two previous years of the publication.

For the purposes of this bill, in the absence of a listing for a particular motor vehicle, recreational vehicle, or agricultural equipment in such publication, excluding tangible personal property as described in certain sections of current law, the assessor may use such information or publications which in the assessor's judgment will fairly estimate the true value in money of the motor vehicle, recreational vehicle, or agricultural equipment in the current year or two previous years. The assessor may assign any value that he or she deems to be the true value, provided that it is not greater than a current publication, if the assessor uses a publication, and that the value is not less than the lowest value in the current or two previous years of the publication.

This bill has 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

Department of Revenue
Department of Natural Resources
Office of the State Auditor
Office of Administration
    Budget and Planning
Missouri Department of Transportation
Department of Commerce and Insurance
State Tax Commission
Office of the Secretary of State
Department of Labor and Industrial Relations
Department of Social Services
Joint Committee on Administrative Rules
City of Springfield
City of Claycomo
City of Corder
City of Laclede
City of O'Fallon
City of St. Louis
City of Kansas City
City of Hughesville

Fruitland Area Fire Protection District
Newton County Health Department
Kansas City Health Department
Cole Camp Ambulance District
Nodaway County Ambulance District
Clinton County
Clarence Water/Wastewater
Hughesville Water/Wastewater
Little Blue Valley Sewer District
Morgan County PWSD #2
Jackson County Board of Elections
Platte County Board of Elections
Kansas City Board of Elections
St. Louis County Board of Elections
Howell County Assessor's Office
Lincoln County Assessor's Office
Macon County Assessor's Office
Crawford County 911 Board
Pettis County Ambulance District
Metropolitan St. Louis Sewer District
South River Drainage District
St. Charles County PWSD #2
Wayne County PWSD #2

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April 26, 2022

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Assistant Director
April 26, 2022