

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4183S.01I
Bill No.: SB 892
Subject: Taxation and Revenue - Income; Education, Higher; Abortion
Type: Original
Date: April 27, 2022

Bill Summary: This proposal modifies provisions relating to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue Fund	(\$76,580,702)	\$77,828,016	\$77,558,086
Total Estimated Net Effect on General Revenue	(\$76,580,702)	\$77,828,016	\$77,558,086

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
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 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
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 2023	FY 2024	FY 2025
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (B&P)** state this proposal may increase TSR by \$76,587,867 once SB 509 (2014) and SB 153 (2021) have been fully implemented.

B&P stated this proposal will impact the calculation under Article X, Section 18(e).

Section 143.011 – Individual Income Tax Rate Reduction

Officials from **B&P** state this section states that the top individual income tax rate shall be reduced by 0.17% beginning January 1, 2023. The top rate of tax may only be reduced if one or more institutions are subject to the endowment tax authorized in Section 146.200.

Based on current revenue forecasts and average revenue growth, B&P estimates that revenues in FY24, and FY25 will reach the SB 509 (2014) growth trigger requirement for reductions to the top rate of tax. In addition, revenues in FY26 and FY27 will reach the growth trigger requirement for reductions to the top rate of tax. Therefore, the top rate of tax is estimated to be reduced by 0.1% in tax years 2025, 2026, 2027, and 2028 under SB 509 (2014) and SB 153 (2021). B&P also notes that per SB 153 (2021) there will be a 0.1% reduction in the top rate for tax year 2024.

Using tax year 2019 data, the most recent complete tax year available, and accounting for the changes in individual income tax law created by SB 509 (2014) and SB 153 (2021), B&P estimates that this section may reduce tax collections by \$182.3M for calendar year 2023. Once SB 509 (2014) and SB 153 (2021) have fully implemented, B&P estimates this provision could reduce tax collections by \$183.0M annually.

Table 1: Income Tax Reduction by Calendar Year

Tax Year	Top Tax Rate - Current Law*	Top Tax Rate - Proposal	GR Impact
2023	5.3%	5.13%	(\$182,335,004)
2024	5.2%	5.03%	(\$181,077,814)
2025	5.1%	4.93%	(\$183,456,623)
2026	5.0%	4.83%	(\$184,431,428)
2027	4.9%	4.73%	(\$183,744,369)
2028	4.8%	4.6%	(\$183,047,133)

**Assumes rate reductions scheduled to occur under SB 509 (2014) are triggered for TY25, and TY26. Also, assumes rate reductions scheduled to occur under SB 153 (2021) are triggered for TY27 and TY28. SB 153 (2021) requires a rate reduction in TY24.*

However, because this proposal would take effect January 1, 2023 individuals will adjust their withholdings and declarations during FY23. 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 provision will reduce TSR and GR by \$76.6M in FY23. Once SB 509 (2014) and SB 153 (2021) have been fully implemented in FY29, and annually thereafter, this proposal may reduce TSR and GR by \$183.0M. 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 23	(\$76,580,702)
FY 24	(\$181,806,984)
FY 25	(\$182,076,914)
FY 26	(\$183,866,041)
FY 27	(\$184,142,863)
FY 28	(\$183,451,530)
FY 29	(\$183,047,133)

**Assumes rate reductions scheduled to occur under SB 509 (2014) are triggered for TY25, and TY26. Assumes rate reductions scheduled to occur under SB 153 (2021) are triggered for TY27 and TY28. SB 153 (2021) requires a rate reduction in TY24*

Officials from the **Department of Revenue** state this proposal would allow for a seventeen-hundredths of one percent reduction starting in calendar year 2023 (which starts January 1, 2023).

DOR notes the current projected Individual Income Tax Rate are calculated with SB 509 (2014), HB 2540 (2018) and SB 153 (2021) are as follows:

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

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

TY 2020 it is 5.4% (no reductions)

TY 2021 it is 5.4% (no reductions)

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

TY 2023 will be 5.3% (no reductions)

TY 2024 will be 5.2% (0.1% reduction from SB 153)

TY 2025 will be 5.1% (0.1% reduction from SB 509)

TY 2026 will be 5.0% (0.1% reduction from SB 509)

TY 2027 will be 4.9% (0.1% reduction from SB 509)

TY 2028 will be 4.8% (final 0.1% reduction from SB 509)

TY 2029 will be 4.8% from here on out

The Department 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 loss to General Revenue is projected as follows:

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

Tax Year	Amount
2023	(\$181,886,114.58)
2024	(\$180,561,388.39)
2025	(\$182,917,242.34)
2026	(\$183,885,710.61)
2027	(\$183,202,766.93)
2028	(\$182,510,422.21)
2029	(\$181,803,742.26)

This would translate into the following loss to general revenue per fiscal year:

Fiscal Year	Loss to GR
2023	(\$75,835,783.13)
2024	(\$181,329,729.58)
2025	(\$181,550,847.05)
2026	(\$183,323,999.01)
2027	(\$183,598,874.26)
2028	(\$182,911,982.15)
2029	(\$182,213,616.63)

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.

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** state this section would create a 1.9% tax on qualifying endowments, beginning with tax year 2023. B&P notes that because the tax covers tax year 2023, final returns by impacted institutions would not be filed until 2024. 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 2021 annual endowment report, the university had an endowment with a market value of approximately \$13,665,000,000. Therefore, B&P estimates that a 1.9% endowment tax could increase GR and TSR by \$259.6M annually beginning in FY24.

Officials from **DOR** state this proposal requires a qualifying institution of higher education to pay a tax on its endowment if it participates in, or supports abortion. DOR 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 \$13,700,000,000. This proposal requires a tax be assessed starting January 1, 2023 on a qualifying higher education institution's endowment of 1.9% annually. DOR notes that the collection of the tax would be in FY 2024 when the tax returns are filed. Using Washington University information this would result in a tax:

FY 2023 \$0

FY 2024 \$260,300,000 (\$13,700,000,000 * 1.9%)

FY 2025 \$260,300,000

Summary

B&P estimates that this proposal may decrease TSR and GR by \$76.6M in FY23. Once SB 509 (2014) and SB 153 (2021) have been fully implemented (FY29), this proposal could increase TSR and GR by \$76.6M annually. Table 3 shows the impact to TSR and GR by fiscal year.

Table 3: Summary

<u>Provision</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
Income Tax Rate Reduction.*	(\$76,580,702)	(\$181,806,984)	(\$182,076,914)	(\$183,866,041)
Endowment Tax	\$0	\$259,635,000	\$259,635,000	\$259,635,000
Total Impact to TSR/GR	(\$76,580,702)	\$77,828,016	\$77,558,086	\$75,768,959

**Assumes rate reductions scheduled to occur under SB 509 (2014) are triggered for TY25, and TY26. Assumes rate reductions scheduled to occur under SB 153 (2021) are triggered for TY27 and TY28. SB 153 (2021) requires a rate reduction in TY24.*

Table 3: Summary (cont.)

<u>Provision</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
Income Tax Rate Reduction.*	(\$184,142,863)	(\$183,451,530)	(\$183,047,133)
Endowment Tax	\$259,635,000	\$259,635,000	\$259,635,000
Total Impact to TSR/GR	\$75,492,137	\$76,183,470	\$76,587,867

**Assumes rate reductions scheduled to occur under SB 509 (2014) are triggered for TY25, and TY26. Assumes rate reductions scheduled to occur under SB 153 (2021) are triggered for TY27 and TY28. SB 153 (2021) requires a rate reduction in TY24.*

Officials from **DOR** state Section 144.1021 removes section 143.011 from the January 1, 2023 effective date of the Economic Nexus (Wayfair) provisions adopted in SB 153 (2021). The changes made by SB 153 to section 143.011 have specific dates the changes are to occur. Removing this provision from the effective date section will not have a fiscal impact.

This proposal would result in changes to the individual income tax rate every year beginning with 2022, should the endowment tax get passed. Form and programming changes are needed each time the rate changes. These are estimated to cost \$3,596 annually.

Oversight assumes the Department of Revenue is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process. Officials from the DOR assume the proposal will have no fiscal impact on their organization.

Oversight notes this proposed legislation imposes a tax, beginning January 1, 2023, on the aggregate fair market value of the assets of endowment funds held by qualifying institutions equal to one and nine-tenths percent (1.9%). Oversight notes any impacted entity would not report their final tax until after January 1, 2024 (Fiscal Year 2024).

Oversight notes the financial statements published by Washington University states, for Year Ending June 30, 2021, the Total Endowment Net Assets by Purpose is \$13,668,081,000 and reports the University's net endowment assets at June 30, 2021 to be \$13,665,385,000.

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 for informational purposes, per information published in Washington University's annual reports (2011 – 2021), Washington University's Endowment's had a market value of the following amount(s) by 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%
2021	\$ 13,665,000,000	61%

10-Year Average % Change 13%

5-Year Average % Change 18%

Oversight notes the ten (10) year average percent change (increase) totals thirteen percent (13%). Oversight notes, though, that the five (5) year average (2017-2021) percent change (increase) totals eighteen (18%).

For informational purposes, **Oversight** will show the potential impact of the tax *if* Washington University's Endowment grows at an average thirteen percent (13%) 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
2022	\$15,440,896,719
2023	\$17,447,588,107
2024	\$19,715,068,127
2025	\$22,277,228,742
2026	\$25,172,366,497
2027	\$28,443,754,940
2028	\$32,140,291,425
2029	\$36,317,227,984

For informational purposes, **Oversight** estimates *if* the endowment fund grows at the rate calculated above and a tax of 1.9% were imposed on the market value of the endowment, the tax collected per fiscal year could total:

Fiscal Year	Estimated Fair Market Value of Washington University's Endowment	Estimated Endowment Tax Collections (1.9%)
2023	\$17,447,588,107	-
2024	\$19,715,068,127	\$374,586,294
2025	\$22,277,228,742	\$423,267,346
2026	\$25,172,366,497	\$478,274,963
2027	\$28,443,754,940	\$540,431,344
2028	\$32,140,291,425	\$610,665,537
2029	\$36,317,227,984	\$690,027,332

Oversight notes the endowment tax would not occur (or not occur until a later tax year) provided no institutions meet the aforementioned criteria. For purposes of this fiscal note, Oversight will assume this proposed legislation will not cause or result in the change of Washington University's practice(s). Therefore, Oversight will assume the endowment tax proposed will occur in Tax Year 2023 in which such tax returns would be filed after January 1, 2024; Fiscal Year 2024.

Due to the uncertainty of future endowment growth projections, **Oversight** will report a revenue gain to GR equal to DOR and B&P's estimated impact in the fiscal note.

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 **Office of the Secretary of State (SOS)** notes many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State's office 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 Secretary of State's office for Administrative Rules is less than \$5,000. The Secretary of State's office 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 the office can sustain with the 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 **University of Missouri System** and **Missouri State University** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE FUND			
<u>Revenue Reduction – §143.011 – Individual Income Tax Rate Reduction p. 3-5</u>	(\$76,580,702)	(\$181,806,984)	(\$182,076,914)
<u>Revenue Gain - §146.200 - Endowment tax p. 6-9</u>	\$0	\$259,635,000	\$259,635,000
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$76,580,702)</u>	<u>\$77,828,016</u>	<u>\$77,558,086</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
	<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, 2023, this act reduces the top rate of tax by 0.17%. 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)

HIGHER EDUCATION ENDOWMENT TAX

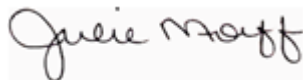
For all tax years beginning on or after January 1, 2023, this act imposes a tax on the endowments of qualifying institutions of higher education at a rate of 1.9% of the aggregate fair market value of the assets of such endowments. The tax shall apply to the endowments, as defined in the act,

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, 2023, 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

Office of Administration - Budget and Planning
Department of Revenue
Joint Committee on Administrative Rules
Office of the Secretary of State
University of Missouri System
Missouri State University



Julie Morff
Director
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Ross Strobe
Assistant Director
April 27, 2022