

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5983S.02C
 Bill No.: SCS for SB Nos. 1 & 6
 Subject: Taxation and Revenue - Income
 Type: Original
 Date: September 20, 2022

Bill Summary: This proposal modifies provisions relating to income taxes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2028)
General Revenue Fund*	(\$294,357,838)	(\$654,810,021)	(\$546,416,126)	(\$268,580,529)
Total Estimated Net Effect on General Revenue	(\$294,357,838)	(\$654,810,021)	(\$546,416,126)	(\$268,580,529)

*Oversight notes the state individual income tax rate (5.3% in CY 2022) is to be reduced in 0.10% annual increments (if certain triggers are met) until it reaches 4.8%. This proposal would change the tax rate to 4.8% starting January 1, 2023. With the assumption the state would have reached the 4.8% tax rate eventually regardless of this bill, the net fiscal impact of the changes in the bill decreases over the first four fiscal years. The impact for FY 2023 is smaller because it reflects a partial year.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2028)
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2028)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2028)
Total Estimated Net Effect on FTE	0	0	0	0

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2028)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Due to time constraints, **Oversight** was unable to receive some agency responses in a timely manner and performed limited analysis. Oversight has presented this fiscal note on the best current information that we have or on information regarding a similar bill(s). Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

Oversight notes that this proposal contains an emergency clause (Section B) for Sections 143.021 and 143.131 that would make this proposal effective upon signing by the Governor for the designated statutory sections. However, both sections have an internal start date of January 1, 2023. Therefore, the emergency clause will not impact either section.

Sections 143.011, 143.021, & 143.131 Individual Income Tax Rate & Deduction Changes (Effective January 1, 2023)

In response to a previous version (SB 1), officials from the **Office of Administration (B&P)** noted:

Section 143.011 would reduce the top individual income tax rate to 4.8% beginning with tax year 2023. Section 143.021 would eliminate the bottom individual income tax bracket. Section 143.131 would increase the standard deduction by \$2,000 for individuals and \$4,000 for married filing combined taxpayers.

B&P notes that under current law the top tax rate will be 5.2% starting with tax year 2023. B&P notes that per SB 153 (2021) there will be a 0.1% reduction in the top rate for tax year 2024. Based on current revenue forecasts and average revenue growth, B&P estimates that revenues in FY24, FY25, and FY26 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 under SB 509 (2014) and SB 153 (2021).

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 proposal may reduce tax collections by \$700.9M in tax year 2023. Once SB 509 (2014) and SB 153 (2021) would have fully implemented, B&P estimates this proposal could reduce tax collections by \$268.6M annually, compared to revenues under SB 509 (2014) and SB 153 (2021) with a top rate 4.8%. Table 1 shows the estimated revenue impact by tax year.

Table 1: Impact by
Tax Year

Tax Year	GR Impact
2023	(\$700,851,995)
2024	(\$591,228,249)
2025	(\$484,532,719)
2026	(\$374,524,490)
2027	(\$268,580,529)

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 could reduce TSR and GR by \$294.4M in FY23. Once SB 509 (2014) and SB 153 (2021) would have fully implemented, and annually thereafter, this proposal may reduce TSR and GR by \$268.6M, compared to revenues under SB 509 (2014) and SB 153 (2021) with a top rate 4.8%. Table 2 shows the estimated impact by fiscal year.

Table 2: Impact by
Fiscal Year

Fiscal Year	GR Impact
2023	(\$294,357,838)
2024	(\$654,810,021)
2025	(\$546,416,126)
2026	(\$438,329,263)
2027	(\$330,028,027)
2028	(\$268,580,529)

In response to a previous version (SB 1), officials from the **Department of Revenue (DOR)** noted in 2013 Missouri's individual income tax rate was 6% per the tax tables printed in statutes. In 2014, SB 509 then allowed for five reductions of the individual income tax rate based on certain revenue triggers (Section 143.011.2). DOR notes that currently three of those reductions have occurred (TY 2018, TY 2019 and TY 2022) and the fourth is forecasted to happen in tax year 2023, which will set the rate at 5.2%.

Additionally, in 2019 HB 2540 was added to statutes that caused the individual income tax rate to be decreased by four-tenths of one percent (Section 143.011.3). Then during the 101st General Assembly regular session, SB 153 & 97 was passed that would allow starting in tax year 2024 another two reductions of SB 509 (Section 143.011.4). Therefore, as of the filing of the fiscal note, the individual income tax rate for tax year 2022 is 5.3% and the tax rate scheduled for tax year 2023 is 5.2%.

This proposal repeals Sections 143.011.2, 143.011.3 and 143.011.4 starting January 1, 2023. This proposal then adds language setting the individual income tax rate at 4.8% starting January

1, 2023. Additionally, it will eliminate the lowest income tax bracket as well as increase the standard deduction amount a taxpayer can claim. The increase in the standard deduction is an additional \$2,000 for all filers except married filing combined over the federal standard deduction amount. Taxpayers filing as married filing combined will receive \$4,000 over the federal standard deduction amount.

Using the Department's internal Income Tax Model that contains confidential taxpayer data, DOR was able to estimate the following impact of these new changes for tax year 2023.

Tax Year	Amount
2023	(\$698,587,331.39)
2024	(\$588,829,874.85)
2025	(\$482,444,909.19)
2026	(\$372,789,096.54)
2027	(\$267,107,107.23)
2028	(\$266,728,907.04)

The Department uses a 42%/58% split to convert the tax year numbers to fiscal year numbers.

Fiscal Year	Loss to GR
2023	(\$293,406,679.18)
2024	(\$652,489,199.64)
2025	(\$544,148,189.27)
2026	(\$436,389,467.88)
2027	(\$328,402,661.03)
2028	(\$266,948,263.15)
2029	(\$154,702,766.08)

The DOR noted these provisions will require changes to their taxpayer program, forms and website. DOR estimated it will cost \$10,000 for these changes. No additional FTE would be needed to implement these tax changes.

Oversight notes that DOR assumes this proposal will require programming changes estimated to cost \$10,000. **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.

Oversight used information provided by the IRS (2019 Data) and obtained individual, married filing jointly, and head of household population sizes for each return type as shown in the table below.

Return Type	All Returns	Under \$1	\$1 under \$10,000	\$10,000 under \$25,000	\$25,000 under \$50,000	\$50,000 under \$75,000	\$75,000 under \$100,000	\$100,000 under \$200,000	\$200,000 under \$500,000	\$500,000 under \$1,000,000	\$1,000,000 or more
Number of single returns	1,380,720	26,820	324,330	363,030	384,180	163,360	61,690	46,240	9,110	1,310	650
Number of joint returns	1,059,780	14,870	31,580	78,080	165,040	187,210	179,890	303,290	82,280	12,190	5,350
Number of head of household	364,390	1,300	29,750	121,310	137,590	44,650	16,250	11,090	2,040	310	100
Total	2,804,890	42,990	385,660	562,420	686,810	395,220	257,830	360,620	93,430	13,810	6,100

Example of IRS data for 2019 filing.

Additionally, for the purpose of this fiscal note, **Oversight** estimated the new proposed income tax brackets, shown below, to calculate the GR loss in each income bracket provided by the IRS.

New proposed Tax Bracket (for purpose of this fiscal note)

1st Tax Bracket	\$1,001	\$2,106	2.00%
2nd Tax Bracket	\$2,106	\$3,159	2.50%
3rd Tax Bracket	\$3,159	\$4,212	3.00%
4th Tax Bracket	\$4,212	\$5,265	3.50%
5th Tax Bracket	\$5,265	\$6,318	4.00%
6th Tax Bracket	\$6,318	\$7,000	4.50%
7th Tax Bracket	\$7,000		4.80%

Oversight notes the proposal allows the elimination of first tax bracket; therefore, the first \$1,000 dollars (adjusted for inflation) would not be taxable. Additionally, the proposal eliminates the last tax bracket due to the reduction of the top tax rate to 4.8% at the highest level of taxation; therefore, the 5.4% bracket is no longer applicable. Lastly, the proposal increases the standard deduction by \$2,000 for all single filers (including head of household) and an additional \$4,000 for married filing joint over the federal standard deduction amount. **Oversight** estimated the tax liability under this proposal for each return type and compared it to the estimated tax liability under the current law as shown below:

Individual

Size of adjusted gross income	Individual Returns Population	Difference in tax liability at 5.2%	Total multiplied by population at 5.2%
Under\$1	26,820	0	
\$1under\$10,000	324,330	0	
\$10,000under\$25,000	363,030	\$ 80.30	\$ 29,151,309.00
\$25,000under\$50,000	384,180	\$ 119.57	\$ 45,935,634.24
\$50,000under\$75,000	163,360	\$ 219.14	\$ 35,799,037.12
\$75,000under\$100,000	61,690	\$ 319.14	\$ 19,687,869.98
\$100,000under\$200,000	46,240	\$ 719.14	\$ 33,253,126.08
\$200,000under\$500,000	9,110		
\$500,000under\$1,000,000	1,310		
\$1,000,000ormore	650		

The difference in tax liability is a loss to the GR and benefit to the taxpayer.

Married filing combined

Size of adjusted gross income	Joint Returns Population	Difference in tax liability at 5.2%	Total multiplied by population at 5.2%
Under\$1	14,870	0	
\$1under\$10,000	31,580	0	
\$10,000under\$25,000	78,080	\$ 7.43	\$ 579,744.00
\$25,000under\$50,000	165,040	\$ 186.43	\$ 30,767,582.00
\$50,000under\$75,000	187,210	\$ 266.34	\$ 49,861,885.82
\$75,000under\$100,000	179,890	\$ 366.34	\$ 65,901,262.38
\$100,000under\$200,000	303,290	\$ 766.34	\$ 232,423,865.18
\$200,000under\$500,000	82,280		
\$500,000under\$1,000,000	12,190		
\$1,000,000ormore	5,350		

The difference in tax liability is a loss to the GR and benefit to the taxpayer.

Head of Household

Size of adjusted gross income	Head of Household Returns Population	Difference in tax liability at 5.2%	Total multiplied by population at 5.2%
Under\$1	1,300	0	
\$1under\$10,000	29,750	0	
\$10,000under\$25,000	121,310	\$ 63.01	\$ 7,643,136.55
\$25,000under\$50,000	137,590	\$ 107.27	\$ 14,759,004.12
\$50,000under\$75,000	44,650	\$ 194.54	\$ 8,686,300.30
\$75,000under\$100,000	16,250	\$ 294.54	\$ 4,786,307.50
\$100,000under\$200,000	11,090	\$ 694.54	\$ 7,702,470.78
\$200,000under\$500,000	2,040		
\$500,000under\$1,000,000	310		
\$1,000,000ormore	100		

The difference in tax liability is a loss to the GR and benefit to the taxpayer.

For returns of income levels over \$200,000, Oversight assumed for the purpose of this fiscal note these taxpayers would apply itemized deductions rather than apply the standard deduction amount. To calculate the tax liability for this population, Oversight multiplied the total taxable income, after all credits and applicable deductions provided in IRS data by the current presumed rate of 5.2% and the proposed top rate of 4.8% to estimate the difference shown below:

	Income Level		
	\$200,000 under \$500,000	\$500,000 under \$1,000,000	\$1,000,000 or more
Total Taxable Income	\$ 568,021,000.00	\$ 338,485,000.00	\$ 603,453,000.00

	Estimate Tax Liability		
	\$200,000 under \$500,000	\$500,000 under \$1,000,000	\$1,000,000 or more
5.20%	\$ 29,537,092.00	\$ 17,601,220.00	\$ 31,379,556.00
4.80%	\$ 27,265,008.00	\$ 16,247,280.00	\$ 28,965,744.00
Diff at 5.2%	\$ 2,272,084.00	\$ 1,353,940.00	\$ 2,413,812.00

The difference in tax liability is a loss to the GR and benefit to the taxpayer.

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

Oversight has summarized the total estimated loss of tax revenue by income level at the presumed rate of 5.2% in the table below.

Income Level	Estimated tax liability difference for all Individual, Joint, and Head of Household at 5.2%
Under \$1	\$ -
\$1under\$10,000	\$ -
\$10,000under\$25,000	\$ 37,374,189.55
\$25,000under\$50,000	\$ 91,462,220.36
\$50,000under\$75,000	\$ 94,347,223.24
\$75,000under\$100,000	\$ 90,375,439.86
\$100,000under\$200,000	\$ 273,379,462.04
\$200,000under\$500,000	
\$500,000under\$1,000,000	
\$1,000,000ormore	
	\$ 586,938,535.05
\$200 to \$1,000,000 and more	\$ 6,039,836.00
Total	\$ 592,978,371.05

Oversight estimates the reduction of the General Revenue Fund for the provisions of this proposal to total (\$592,978,371) for TY 2023. Oversight notes that this estimate is presented in 2019 nominal amounts. Since 2019, the CPI has risen by 14.2% (to current date). Oversight adjusted the total amount to represent the impact in today's dollar amount of (\$677,181,300) (rounded to the nearest dollar).

Oversight compared the estimate of (\$677,181,300) to DOR and B&P's respective estimates for TY 2023 ((698,587,331.39) and (\$700,851,995)). After conducting independent research, **Oversight** assumes DOR and B&P's estimated impact for this proposal accurately represents the loss of the general revenue.

Oversight notes the both DOR and B&P's estimates includes data from DOR and B&P's internal Income Tax Model. Additionally, **Oversight** notes both DOR and B&P's estimates of revenue impact assume all remaining rate reductions created by SB 509 (2014) and SB 153 (2021) will occur in consecutive years.

Oversight notes that it does not currently have the resources and/or access to state tax data to produce a thorough independent revenue estimate and is unable to completely verify the revenue estimates provided by B&P and DOR. Therefore, for the purpose of this fiscal note, Oversight will note B&P's estimated impact for this proposal.

<u>FISCAL IMPACT – State Government</u>	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2028)
GENERAL REVENUE FUND				
<u>Revenue Reduction - §143.011, §143.021, & §143.131 Individual Income Tax Changes p. 3-9</u>	<u>(\$294,357,838)</u>	<u>(\$654,810,021)</u>	<u>(\$546,416,126)</u>	<u>(\$268,580,529)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$294,357,838)</u>	<u>(\$654,810,021)</u>	<u>(\$546,416,126)</u>	<u>(\$268,580,529)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2028)
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

Current law provides for reductions to the top rate of income tax to an eventual rate of 4.8% over a period of years, contingent on meeting certain net general revenue collection triggers. This act repeals all such scheduled reductions and reduces the top rate of income tax to 4.8% beginning in the 2023 calendar year. (Section 143.011)

Current law exempts the first \$100 of a taxpayer's income from taxation. For all tax years beginning on or after January 1, 2023, this act exempts the first \$1,000 of income from taxation. (Section 144.021)

Current law sets the Missouri standard deduction equal to the allowable federal standard deduction. For all tax years beginning on or after January 1, 2023, this act sets the Missouri standard deduction equal to the allowable federal standard deduction plus \$2,000 for every filing

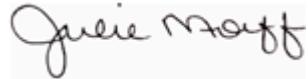
status except married filing combined, and plus \$4,000 for the filing status of married filing combined. (Section 143.131)

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

Department of Revenue
Office of Administration - Budget and Planning



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September 20, 2022



Ross Strope
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September 20, 2022