COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0236S.01I
Bill No.: SB 290 SB 290
Subject: Education, Higher; Taxation and Revenue - Income; Abortion
Type: Original
Date: January 4, 2023

Bill Summary: This proposal modifies provisions relating to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue Fund	($81,123,943)	$40,504,294	$41,210,761
Total Estimated Net Effect on General Revenue	**($81,123,943)**	**$40,504,294**	**$41,210,761**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
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 2024	FY 2025	FY 2026
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
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 2024	FY 2025	FY 2026
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Section 143.011 – Individual Income Tax Rate Reduction

Officials from the **Office of Administration - Budget and Planning (B&P)** state this section states that the top individual income tax rate shall be reduced by 0.17% beginning January 1, 2024. 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 FY23, FY25, FY26, and FY27 will reach the SB 3 (2022) growth trigger requirement for reductions to the top rate of tax. Therefore, the top rate of tax is estimated to be reduced in tax years 2024, 2026, 2027, and 2028 under SB 3 (2022).

Using tax year 2020 data, the most recent complete tax year available, and accounting for the changes in individual income tax law created by SB 3 (2022), B&P estimates that this section may reduce tax collections by $193.2M for calendar year 2024. Once SB 3 (2022) has fully implemented, B&P estimates this provision could reduce tax collections by $195.6M annually. Table 1 shows the assumed top tax rates and estimate impact by calendar year.

Table 1: Income Tax Reduction by Calendar Year

Tax Year	Top Tax Rate - Current Law*	Top Tax Rate - Proposal	GR Impact
2023	4.95%	4.95%	$0
2024	4.8%	4.63%	($193,152,245)
2025	4.8%	4.63%	($192,441,437)
2026	4.7%	4.53%	($191,740,965)
2027	4.6%	4.43%	($193,831,912)
2028	4.5%	4.33%	($195,635,127)

**Assumes rate reductions scheduled to occur under SB 3 (2022) are triggered for TY24, TY26, TY27, and TY28*

However, because this proposal would take effect January 1, 2024 individuals will adjust their withholdings and declarations during FY24. 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 $81.1M in FY24. Once SB 3 (2022) has been fully implemented in FY29, and annually thereafter, this proposal may reduce TSR and GR by $195.6M. 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 24	($81,123,943)
FY 25	($192,853,706)
FY 26	($192,147,239)
FY 27	($192,619,163)
FY 28	($194,589,262)
FY 29	($195,635,127)

**Assumes rate reductions scheduled to occur under SB 3 (2022) are triggered for TY24, TY26, TY27, and TY28*

<u>Section 146.200 – Endowment Tax</u>

Officials from the **Department of Revenue (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, 2022 their endowment's market value was $12,282,000,000.

This proposal requires a tax be assessed starting January 1, 2024, on a qualifying higher education institution's endowment of 1.9% annually. DOR notes that the collection of the tax would be in FY 2025 when the tax returns are filed. Using Washington University information this would result in a tax:

FY 2024	$0
FY 2025	$233,358,000 ($12,282,000,000 * 1.9%)
FY 2026+	$233,358,000

Officials from the **Office of Administration - Budget and Planning (B&P)** state this section would create a 1.9% tax on qualifying endowments, beginning with tax year 2024. B&P notes that because the tax covers tax year 2024, final returns by impacted institutions would not be filed until 2025. 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 manner, 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 2022 annual endowment report, the university had an endowment with a market value of approximately $12,282,000,000. Therefore, B&P estimates that a 1.9% endowment tax could increase GR and TSR by $233.4M annually beginning in FY25.

Summary

B&P estimates that this proposal may decrease TSR and GR by $81.1M in FY24. Once SB 3 (2022) has fully implemented (FY29), this proposal could increase TSR and GR by $37.7M annually. Table 3 shows the impact to TSR and GR by fiscal year.

Table 3: Summary

Provision	FY 2024	FY 2025	FY 2026
Income Tax Rate Reduction.*	($81,123,943)	($192,853,706)	($192,147,239)
Endowment Tax	$0	$233,358,000	$233,358,000
Total Impact to TSR/GR	($81,123,943)	$40,504,294	$41,210,761

*Assumes rate reductions scheduled to occur under SB 3 (2022) are triggered for TY24, TY26, TY27, and TY28

Table 3: Summary (cont.)

Provision	FY 2027	FY 2028	FY 2029
Income Tax Rate Reduction.*	($192,619,163)	($194,589,262)	($195,635,127)
Endowment Tax	$233,358,000	$233,358,000	$233,358,000
Total Impact to TSR/GR	$40,738,837	$38,768,738	$37,722,873

*Assumes rate reductions scheduled to occur under SB 3 (2022) are triggered for TY24, TY26, TY27, and TY28

Officials from the **Department of Revenue (DOR)** state this proposal would allow for seventeen-hundredths of one percent reduction starting in calendar year 2024 (which starts January 1, 2025 based on the filing of the returns).

DOR notes the current individual income tax rate for tax year 2023 is 4.95% per SB 3 (2022) and is projected to be 4.8% for tax years 2024 & 2025. Per SB 3, the individual income tax rate is then scheduled to drop over a period of years to 4.5% based on certain state revenue growth. The Department is unable to determine when these scheduled drops in the rate will actually occur, but for fiscal note purposes only, DOR will assume they will drop over the next consecutive years.

Table 1: Current and Proposed Income Tax Rates

Tax Year	Top Tax Rate - Current Law*	Top Tax Rate - Proposal
2023	4.95%	
2024	4.80%	4.63%
2025	4.80%	4.63%
2026	4.70%	4.53%
2027	4.60%	4.43%
2028+	4.50%	4.33%

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:

Table 2: Income Tax Reductions by Fiscal Year

Fiscal Year	Loss to GR
2024	($79,695,324)
2025	($189,451,217)
2026	($188,744,330)
2027	($189,213,991)
2028	($191,176,513)
2029	($192,218,815)

Therefore, this entire proposal would decrease general revenue as follows:

Provision	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Income Tax Rate Reduction.*	($79,695,324)	($189,451,217)	($188,744,330)	($189,213,991)	($191,176,513)

Endowment Tax	$0	$233,358,000	$233,358,000	$233,358,000	$233,358,000
Total Impact to TSR/GR	($79,695,324)	$43,906,783	$44,613,670	$44,144,009	$42,181,487

This proposal would require changes to the department's MO-1040 Form, its instructions, the DOR website, and the individual income tax computer system. These are estimated to cost $7,193 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 form and computer 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 notes both DOR and B&P's estimates include data from DOR and B&P's internal Income Tax Model.

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 verify the revenue estimates provided by B&P and DOR.

Oversight will utilize DOR's projected fiscal estimated impacts of this proposal throughout the implementation of the tax rate reductions from SB 509 (2014), SB 153 (2021), and SB 3 (2022) to show the maximum impact of the proposal.

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 2024 in which such tax returns would be filed after January 1, 2025 (Fiscal Year 2025).

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)** note 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 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.

FISCAL IMPACT – State Government	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE FUND			
Revenue Reduction – §143.011 – Individual Income Tax Rate Reduction	($81,123,943)	($192,853,706)	($192,147,239)
Revenue Gain - §146.200 - Endowment tax	$0	$233,358,000	$233,358,000
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($81,123,943)**	**$40,504,294**	**$41,210,761**

FISCAL IMPACT – Local Government	FY 2024 (10 Mo.)	FY 2025	FY 2026
	$0	**$0**	**$0**

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

INDIVIDUAL INCOME TAX

For all tax years beginning on or after January 1, 2024, 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, 2024, 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, 2024, 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.

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
Office of the Secretary of State
Joint Committee on Administrative Rules

Julie Morff
Director
January 4, 2023

Ross Strope
Assistant Director
January 4, 2023