COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0457H.08C
Bill No.: HCS for SS for SCS for SB 133
Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Department of Revenue
Type: #Updated
Date: May 2, 2023

#Updated the impacts to the Blind Pension fund and to local political subdivisions from §137.115 as new rate and depreciation schedule data was obtained by Budget and Planning pgs. (1, 2, 18-23, 77, 78)

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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 | Fully Implemented (FY Unknown) |
| General Revenue | Could exceed ($450,934,963) | Could exceed ($1,168,815,895) | Could exceed ($1,169,777,700) | Could exceed ($1,524,247,066 to $1,528,282,711) |
| **Total Estimated Net Effect on General Revenue** | **Could exceed ($450,934,963)** | **Could exceed ($1,168,815,895)** | **Could exceed ($1,169,777,700)** | **Could exceed ($1,524,247,066 to $1,528,282,711)** |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | | |
|---|---|---|---|---|
| FUND AFFECTED | FY 2024 | FY 2025 | FY 2026 | Fully Implemented (FY Unknown) |
| State Road Fund | Could exceed ($95,186,004 to $172,732,753) | Could exceed ($117,961,122 to $187,302,515) | Could exceed ($168,484,856 to $256,465,881) | Could exceed ($193,575,687 to $286,773,850) |
| Blind Pension Fund | $0 | #Could exceed ($2,499,449) | #Could exceed ($2,499,449) | #Could exceed ($2,499,449) |
| **Total Estimated Net Effect on Other State Funds** | **Could exceed ($95,186,004 to $172,732,753)** | **#Could exceed ($120,460,571 to $189,801,964)** | **#Could exceed ($170,984,305 to $258,965,330)** | **#Could exceed ($196,075,136 to $289,273,299)** |

Numbers within parentheses: () indicate costs or losses.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | | |
|---|---|---|---|---|
| FUND AFFECTED | FY 2024 | FY 2025 | FY 2026 | Fully Implemented (FY Unknown) |
| | | | | |
| | | | | |
| **Total Estimated Net Effect on All Federal Funds** | **$0** | **$0** | **$0** | **$0** |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | | |
|---|---|---|---|---|
| FUND AFFECTED | FY 2024 | FY 2025 | FY 2026 | Fully Implemented (FY Unknown) |
| General Revenue | 0 FTE | 1 FTE | 1 FTE | 1 FTE |
| | | | | |
| **Total Estimated Net Effect on FTE** | **0 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 2024 | FY 2025 | FY 2026 | Fully Implemented (FY Unknown) |
| | | | | |
| **Local Government** | **Could exceed ($35,020,850 to $63,702,525)** | **#Could exceed ($606,215,702 to $631,862,519)** | **#Could exceed ($624,902,923 to $657,443,490)** | **#Could exceed ($634,182,772 to $668,653,326)** |

## FISCAL ANALYSIS

ASSUMPTION

**Due to time constraints relative to the complexity of this proposal, Oversight has performed limited analysis of agency responses and of the bill. Oversight has presented this fiscal note on the best current information that we have or on information regarding a similar bill(s). Oversight will continue to review to determine if an updated fiscal note should be prepared.**

**Sections 135.010, 135.025, 135.030 – PTC Increase**

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would make multiple changes to the property tax credit (PTC).

**Section 135.010** would increase the income allowance for PTC claimants by $800 for renters and $1,800 for homeowners starting with tax year 2024. B&P notes that this provision will begin affecting state revenues in FY25, when taxpayers file their annual PTC form for TY 2024.

**Section 135.025** would increase the maximum PTC credit amount. **Section 135.030.1** would increase the maximum income limits allowed to qualify for the PTC. **Section 135.030.2** would increase the phase-out increments, used when calculating the PTC credit based on an individual's income. B&P notes that because these provisions are effective for calendar year 2024, they will begin affecting state revenues in FY24 as annual PTC claims are filed beginning in January. B&P further notes that the peak PTC claims are January through April each year.

**Section 135.025** would increase the renter credit from $750 (current law) to $1,055 and the homeowner credit from $1,100 (current law) to $1,555 starting with tax year 2024. Beginning January 1, 2025, the credits shall be adjusted annually for inflation using CPI-U for the Midwest Region. For the purpose of this fiscal note, B&P will assume a 2% average annual inflation rate. Table 1 shows the estimated credit amounts by tax year.

Table 1: PTC Credit

| Calendar Year | Renters | Homeowners |
|---|---|---|
| Current | $750 | $1,100 |
| 2024 | $1,055 | $1,550 |
| 2025 | $1,076 | $1,581 |
| 2026 | $1,098 | $1,613 |
| 2027 | $1,120 | $1,645 |

*Assumes 2% average annual inflation

**Section 135.025.1** would increase the maximum upper income allowed to claim the PTC. The maximum income limit for renters shall be increased from $27,500 (current law) to $38,200, while the maximum income limit for homeowners shall be increased from $30,000 (current law) to $42,200. Beginning January 1, 2025, the maximum income limits shall be adjusted annually for inflation using CPI-U for the Midwest Region. For the purpose of this fiscal note, B&P will assume a 2% average annual inflation rate. Tables 2 shows the maximum income limits by tax year.

Table 2: Maximum Income Limits

| Calendar Year | Renter | Homeowner |
|---|---|---|
| Current | $27,500 | $30,000 |
| 2024 | $38,200 | $42,200 |
| 2025 | $38,964 | $43,044 |
| 2026 | $39,743 | $43,905 |
| 2027 | $40,538 | $44,783 |

*Assumes 2% average annual inflation

**Section 135.025.2** would increase the phase-out income increments from $300 (current law) to $495 beginning with calendar year 2024.

<u>*Maximum Credit and Slower Credit Phase-Out*</u>

***Renter***

In tax year 2021, 66,717 non-homeowners claimed the PTC, with a maximum possible credit of $750. B&P notes that the PTC phases-out as an individual's income increases. This proposal both increases the maximum credit and slows the income phase-out.

Using tax year 2021 data, the most recent available, and the phase-out formula, B&P estimates that increasing the PTC credit from $750 to $1,055 and increasing the phase-out limit from $300 to $495 could reduce GR by $16,584,973 for FY24. By FY27, increasing the maximum PTC credit from $750 to $1,120 could reduce GR by $20,124,938.

B&P notes that this estimate does not include a higher average PTC claim for the individuals discussed under the "maximum upper limit" section. Therefore, increasing the maximum credit could reduce TSR and GR by more than $20,124,938 by FY27. B&P notes that the annual loss for years after FY27 will likely exceed this amount as the maximum property tax credit for renters will continue to be adjusted annually for inflation.

***Homeowner***

In tax year 2021, 64,463 homeowners claimed the PTC, with a maximum possible credit of $1,100. B&P notes that the PTC phases-out as an individual's income increases. This proposal both increases the maximum credit and slows the income phase-out.

Using tax year 2021 data, the most recent available, and the phase-out formula, B&P estimates that increasing the PTC credit from $1,100 to $1,550 and increasing the phase-out limit from $300 to $495 could reduce GR by $18,965,756 for FY24. By FY27, increasing the maximum PTC credit from $1,100 to $1,645 could reduce GR by $23,019,486.

B&P notes that this estimate does not include a higher average PTC claim for the individuals discussed under the "maximum upper limit" section. Therefore, increasing the maximum credit could reduce TSR and GR by more than $23,019,486 by FY27. B&P notes that the annual loss for years after FY27 will likely exceed this amount as the maximum property tax credit for homeowners will continue to be adjusted annually for inflation.

*Credit Changes Summary*
Based on the above information, B&P estimates that this provision could reduce GR by $35,550,729 in FY24. By FY27, this provision could reduce GR by $43,144,424 annually. Table 3 shows the estimated impact by year.

Table 3: Higher Credit and Slower Phase-Out

| Tax Year | Fiscal Year | Renter | Homeowner | Total |
|---|---|---|---|---|
| 2024 | 2024 | ($16,584,973) | ($18,965,756) | ($35,550,729) |
| 2025 | 2025 | ($17,728,719) | ($20,288,610) | ($38,017,329) |
| 2026 | 2026 | ($18,926,851) | ($21,654,084) | ($40,580,935) |
| 2027 | 2027 | ($20,124,938) | ($23,019,486) | ($43,144,424) |

*Homeownership Rates*
Using tax year 2021 PTC claims, the most recent year available, B&P determined the percentage of claimants that were homeowners versus renters. Table 4 shows the percentage for each major filing type.

Table 4: PTC Homeowner vs. Renter

| Filing Type | Homeowner | Renter |
|---|---|---|
| Age 65+ | 65.1% | 34.9% |
| Widow(er) | 70.5% | 29.5% |
| Disabled | 23.1% | 76.9% |

For the purpose of this fiscal note, B&P will assume the potential newly qualified (under the higher maximum income limits) individuals will follow the same owner/renter pattern. However, it is likely that as the income limit increases, the homeownership rate would also increase.

*Maximum Income Limits*

*Renter*
<u>2024:</u>
In tax year 2020, the most recent complete year available, there were 206 individuals who filed as qualifying widow/widower, 55,061 individuals who claimed they were 65 years or older, and 5,722 individuals who claimed they were disabled on their individual income tax forms and had a Missouri Adjusted Gross Income (MAGI) between $27,500 and $38,200.

Using the homeowner/renter split discussed above, B&P assumes that of those individuals - 61 of the widow(er), 19,194 age 65 and older, and 4,399 disabled could potentially be renters. Therefore, B&P estimates that 23,654 (61 + 19,194 + 4,399) additional people could qualify for the renter PTC in calendar year 2024.

In addition, based on the additional maximum credit and slower-phase out discussed above, B&P estimates that the average PTC credit for these individuals may be around $206. Therefore, B&P estimates that increase the maximum income limit for renters could reduce TSR and GR by $4,882,612 (23,654 x $206) in FY24.

<u>2025:</u>
In tax year 2020, the most recent complete year available, there were 219 individuals who filed as qualifying widow/widower, 58,495 individuals who claimed they were 65 years or older, and 6,119 individuals who claimed they were disabled on their individual income tax forms and had a Missouri Adjusted Gross Income (MAGI) between $27,500 and $38,964.

Using the homeowner/renter split discussed above, B&P assumes that of those individuals - 65 of the widow(er), 20,391 age 65 and older, and 4,705 disabled could potentially be renters. Therefore, B&P estimates that 25,160 (65 + 20,391 + 4,705) additional people could qualify for the renter PTC in calendar year 2025.

In addition, based on the additional maximum credit and slower-phase out discussed above, B&P estimates that the average PTC credit for these individuals may be around $210. Therefore, B&P estimates that increase the maximum income limit for renters could reduce TSR and GR by $5,281,728 (25,160 x $210) in FY25.

<u>2026:</u>
In tax year 2020, the most recent complete year available, there were 232 individuals who filed as qualifying widow/widower, 61,898 individuals who claimed they were 65 years or older, and 6,476 individuals who claimed they were disabled on their individual income tax forms and had a Missouri Adjusted Gross Income (MAGI) between $27,500 and $39,743.

Using the homeowner/renter split discussed above, B&P assumes that of those individuals - 69 of the widow(er), 21,577 age 65 and older, and 4,979 disabled could potentially be renters. Therefore, B&P estimates that 26,625 (69 + 21,577 + 4,979) additional people could qualify for the renter PTC in calendar year 2026.

In addition, based on the additional maximum credit and slower-phase out discussed above, B&P estimates that the average PTC credit for these individuals may be around $232. Therefore, B&P estimates that increase the maximum income limit for renters could reduce TSR and GR by $6,174,926 (26,625 x $232) in FY26.

2027:
In tax year 2020, the most recent complete year available, there were 250 individuals who filed as qualifying widow/widower, 65,541 individuals who claimed they were 65 years or older, and 6,837 individuals who claimed they were disabled on their individual income tax forms and had a Missouri Adjusted Gross Income (MAGI) between $27,500 and $40,538.

Using the homeowner/renter split discussed above, B&P assumes that of those individuals - 74 of the widow(er), 22,847 age 65 and older, and 5,257 disabled could potentially be renters. Therefore, B&P estimates that 28,178 (74 + 22,847 + 5,257) additional people could qualify for the renter PTC in calendar year 2027.

In addition, based on the additional maximum credit and slower-phase out discussed above, B&P estimates that the average PTC credit for these individuals may be around $236. Therefore, B&P estimates that increase the maximum income limit for renters could reduce TSR and GR by $6,655,972 (28,178 x $236) in FY27.

B&P notes that the annual loss for years after FY27 will likely exceed this amount as the maximum income for renters will continue to be adjusted annually for inflation.

***Homeowner***
2024:
In tax year 2020, the most recent complete year available, there were 236 individuals who filed as qualifying widow/widower, 57,100 individuals who claimed they were 65 years or older, and 6,080 individuals who claimed they were disabled on their individual income tax forms and had a Missouri Adjusted Gross Income (MAGI) between $30,000 and $42,200.

Using the homeowner/renter split discussed above, B&P assumes that of those individuals - 166 of the widow(er), 37,195 age 65 and older, and 1,405 disabled could potentially be homeowners. Therefore, B&P estimates that 38,767 (166 + 37,195 + 1,405) additional people could qualify for the homeowner PTC in calendar year 2024.

In addition, based on the additional maximum credit and slower-phase out discussed above, B&P estimates that the average PTC credit for these individuals may be around $478. Therefore, B&P estimates that increase the maximum income limit for homeowners could reduce TSR and GR by $18,530,603 (38,767 x $478) in FY24.

2025:
In tax year 2020, the most recent complete year available, there were 255 individuals who filed as qualifying widow/widower, 60,826 individuals who claimed they were 65 years or older, and

1,487 individuals who claimed they were disabled on their individual income tax forms and had a Missouri Adjusted Gross Income (MAGI) between $30,000 and $43,044.

Using the homeowner/renter split discussed above, B&P assumes that of those individuals - 180 of the widow(er), 39,622 age 65 and older, and 1,487 disabled could potentially be homeowners. Therefore, B&P estimates that 41,289 (180 + 39,622 + 1,487) additional people could qualify for the homeowner PTC in calendar year 2025.

In addition, based on the additional maximum credit and slower-phase out discussed above, B&P estimates that the average PTC credit for these individuals may be around $489. Therefore, B&P estimates that increase the maximum income limit for homeowners could reduce TSR and GR by $20,192,122 (41,289 x $489) in FY25.

<u>2026:</u>
In tax year 2020, the most recent complete year available, there were 269 individuals who filed as qualifying widow/widower, 64,521 individuals who claimed they were 65 years or older, and 6,780 individuals who claimed they were disabled on their individual income tax forms and had a Missouri Adjusted Gross Income (MAGI) between $30,000 and $43,905.

Using the homeowner/renter split discussed above, B&P assumes that of those individuals - 190 of the widow(er), 42,029 age 65 and older, and 1,567 disabled could potentially be homeowners. Therefore, B&P estimates that 43,786 (190 + 42,029 + 1,567) additional people could qualify for the homeowner PTC in calendar year 2026.

In addition, based on the additional maximum credit and slower-phase out discussed above, B&P estimates that the average PTC credit for these individuals may be around $521. Therefore, B&P estimates that increase the maximum income limit for homeowners could reduce TSR and GR by $22,814,305 (43,786 x $521) in FY26.

<u>2027:</u>
In tax year 2020, the most recent complete year available, there were 292 individuals who filed as qualifying widow/widower, 68,205 individuals who claimed they were 65 years or older, and 7,130 individuals who claimed they were disabled on their individual income tax forms and had a Missouri Adjusted Gross Income (MAGI) between $30,000 and $44,783.

Using the homeowner/renter split discussed above, B&P assumes that of those individuals - 206 of the widow(er), 44,429 age 65 and older, and 1,648 disabled could potentially be homeowners. Therefore, B&P estimates that 46,283 (206 + 44,429 + 1,648) additional people could qualify for the homeowner PTC in calendar year 2027.

In addition, based on the additional maximum credit and slower-phase out discussed above, B&P estimates that the average PTC credit for these individuals may be around $533. Therefore, B&P estimates that increase the maximum income limit for homeowners could reduce TSR and GR by $24,663,488 (46,283 x $533) in FY27.

B&P notes that the annual loss for years after FY27 will likely exceed this amount as the maximum income for renters will continue to be adjusted annually for inflation.

*Maximum Income Changes Summary*
B&P estimates that increasing the maximum income limits could reduce GR by $23,413,215 in FY24. By FY27, this provision could reduce GR by $31,319,460 annually. Table 5 shows the estimated impact by year.

Table 5: Higher Maximum Income Limit

| Calendar Year | Fiscal Year | Renter | Homeowner | Total |
|---|---|---|---|---|
| 2024 | 2024 | ($4,882,612) | ($18,530,603) | ($23,413,215) |
| 2025 | 2025 | ($5,281,728) | ($20,192,122) | ($25,473,849) |
| 2026 | 2026 | ($6,174,926) | ($22,814,305) | ($28,989,231) |
| 2027 | 2027 | ($6,655,972) | ($24,663,488) | ($31,319,460) |

PTC Summary
B&P estimates that this proposal could reduce TSR and GR by $58,963,944 in FY24. By FY27, this provision could reduce TSR and GR by $74,763,884. Table 6 shows the impact by fiscal year.

Table 6: Summary of GR Impact

| | Renter | | Homeowner | | |
|---|---|---|---|---|---|
| Fiscal Year | Higher Income | Increased Credit | Higher Income | Increased Credit | Total GR Loss |
| 2024 | ($4,882,612) | ($16,584,973) | ($18,530,603) | ($18,965,756) | ($58,963,944) |
| 2025 | ($5,281,728) | ($17,728,719) | ($20,192,122) | ($20,288,610) | ($63,491,178) |
| 2026 | ($6,174,926) | ($18,926,851) | ($22,814,305) | ($21,654,084) | ($69,570,166) |
| 2027 | ($6,655,972) | ($20,124,938) | ($24,663,488) | ($23,019,486) | ($74,463,884) |

Officials from the **Department of Revenue (DOR)** note**:**

*Background of Current PTC Program*
This proposal makes several modifications to the Senior Property tax credit (PTC). The PTC provides two tax credits, one to homeowners and one to renters that pay property tax. In order to qualify for the PTC program there are income eligibility requirements and a person must:

Be over the age of 65,
Or 100% disabled,
Or a 100% disabled veteran,

Or at least 60 and the qualifying widow of someone in the previous categories.

For homeowners, the PTC provides a credit to offset the amount of actual property tax paid by the homeowner. The credit is up to $1,100 in property tax actually paid but the credit amount phases out as an individual's income rises. The homeowner's credit is for those with incomes of less than $30,000. It should be noted, there is no limit on the number of individuals who can receive the credit annually.

The PTC also currently provides a credit to offset the amount of property tax included in a taxpayer's rent payment. The tax credit for renters is up to $750 in property tax paid and to qualify a renter must have an income less than $27,500. The amount of the credit does phase out as income rises and there is no limit on the number of renters who can receive the credit annually.

This proposal says that all modifications of the property tax credit will begin on January 1, 2024. DOR notes that the majority of the PTC tax returns are received in DOR's office between January and April of each year. DOR assumes that the changes made by this proposal would fully impact FY 2024.

*Proposed Change*
This proposal makes numerous changers to the PTC credit.

The first modification would increase the income allowance for PTC claimants by $800 for renters and $1,800 for homeowner's starting with calendar year 2024. This bill impact revenue starting in FY 2025 when the taxpayer's file for their credit.

The second modification in this proposal is in Section 135.025, and will increase the credit amounts for both homeowners from $1,100 to $1,550 and for renters from $750 to $1,055 in fiscal year 2024. Additionally, beginning in calendar year 2025 this proposal will allow that new credit amount to be adjusted for inflation in future fiscal years. DOR uses a 2% inflation rate annually for estimating the increase in the credit. The new credit amount are estimated to be:

PTC Credit Increase

| Tax Year | Renters | Homeowners |
|---:|---:|---:|
| Current | $750 | $1,100 |
| 2024 | $1,055 | $1,550 |
| 2025 | $1,076 | $1,581 |
| 2026 | $1,098 | $1,613 |
| 2027 | $1,120 | $1,645 |

*Assumes 2% average annual inflation, starting with tax year 2025.

The third modification of the proposal is found in Section 135.030.1, and will increase the maximum income limit to qualify for the credit starting in 2024. Each credit has a maximum income limit that once exceeded means the taxpayer no longer qualifies for the credit. Currently homeowners can have an income up to $30,000 while renters can have up to $27,500. This proposal will increase those amounts starting in tax year 2024. Then beginning in calendar year 2025, this proposal will allow the income limits to be inflation adjusted in future fiscal years.

Maximum Income

| Calendar Year | Renter | Homeowner |
|---|---|---|
| Current | $27,500 | $30,000 |
| 2024 | $38,200 | $42,200 |
| 2025 | $38,964 | $43,044 |
| 2026 | $39,743 | $43,905 |
| 2027 | $40,538 | $44,783 |

*Assumes 2% average annual inflation, starting with tax year 2025.

This proposal in section 135.025.2 would increase the phase-out income increments from the current $300 to $495 with calendar year 2024.

*Homeownership*
In order to run calculations, DOR first had to determine how many taxpayer's file as a homeowner or a renter. DOR used their internal individual income tax system to pull the current PTC claimants and determine the percentage of homeowners and renters. While DOR recognizes that as incomes increase there could be more homeowners at the higher rate, for the simplicity of the fiscal note DOR will hold the rates steady.

PTC Homeowner vs. Renter

| Filing Type | Homeowner | Renter |
|---|---|---|
| Age 65+ | 65.1% | 34.9% |
| Widow(er) | 70.5% | 29.5% |
| Disabled | 23.1% | 76.9% |

*<u>Impact of the Increase in the Maximum Credit and the Slower Credit Phase-Out Changes</u>*

*Renters*
This proposal will increase the maximum credit allowed for renters from $750 to $1,055 as well as slowing down the income phase-out. DOR's PTC records indicate that in tax year 2021, there were 66,717 renters that claimed the PTC credit. Using their data, DOR estimates that these two

changes would reduce general revenue by $16,584,973 in fiscal year 2024 for renters. By tax year 2027 making these changes will reduce general revenue by $20,124,938.

*Homeowners*
This proposal will increase the maximum credit allowed of homeowners of $1,100 to $1,550. Additionally, it will slow the phase-out of the credit from its current $300 to $495. DOR's PTC records indicate that in tax year 2021, there were 64,463 homeowners that claimed the PTC credit. Using their data DOR estimates that these two changes would reduce general revenue by $18,965,756 in fiscal year 2024 for homeowners. By tax year 2027 making these changes will reduce general revenue by $23,019,486 due to the inflating maximum credit.

*Summary of Maximum Credit and Slower Credit Phase-Out*
Therefore these two modifications of the credit will result in the following loss to general revenue.

Table 5: Higher Credit and Slower Phase-Out

| Tax Year | Fiscal Year | Renter | Homeowner | Total |
|---|---|---|---|---|
| 2024 | 2024 | ($16,584,973) | ($18,965,756) | ($35,550,729) |
| 2025 | 2025 | ($17,728,719) | ($20,288,610) | ($38,017,329) |
| 2026 | 2026 | ($18,926,851) | ($21,654,084) | ($40,580,935) |
| 2027 | 2027 | ($20,124,938) | ($23,019,486) | ($43,144,424) |

<u>Impact of the Maximum Income Limits</u>

DOR notes that in order to determine the impact of the change in the maximum income limits, DOR used their tax year 2020 PTC filing data, and determined that if the cap had been raised, how many more taxpayers could have qualified for the credit. DOR has to calculate the renters and homeowners separately, due to the different maximum income limits being applied. Below is the yearly impact estimated for the next four fiscal years:

*Renters -2024*
The data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $27,500 to $38,200.

| | |
|---|---|
| 206 | Qualified Widows |
| 55,061 | Age 65 & Older |
| <u>5,722</u> | Disabled |
| 60,989 | Total Income Qualifiers |

Using the renter/homeowner split DOR mentioned above, this would result in the potential new renters:

| | |
|---|---|
| 61 | Qualified Widows |
| 19,194 | Age 65 & Older |
| 4,399 | Disabled |
| 23,654 | New Renters Qualifying |

DOR notes that the average PTC credit for these renters would be approximately $206. Therefore, DOR assumes that the maximum income increase for renters would reduce general revenue by $4,882,612 (23,654 * $206) in FY 2024.

***Renters – 2025***
The data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $27,500 to $38,964.

| | |
|---|---|
| 219 | Qualified Widows |
| 58,495 | Age 65 & Older |
| 6,119 | Disabled |
| 64,833 | Total Income Qualifiers |

Using the renter/homeowner split DOR mentioned above, this would result in the potential new renters:

| | |
|---|---|
| 65 | Qualified Widows |
| 20,391 | Age 65 & Older |
| 4,507 | Disabled |
| 25,160 | New Renters Qualifying |

DOR notes that the average PTC credit for these renters would be approximately $210. Therefore, DOR assumes that the maximum income increase for renters would reduce general revenue by $5,281,728 (25,160 * $210) in FY 2025.

***Renters - 2026***
DOR's data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $27,500 to $39,743.

| | |
|---|---|
| 232 | Qualified Widows |
| 61,898 | Age 65 & Older |
| 6,476 | Disabled |
| 68,606 | Total Income Qualifiers |

Using the renter/homeowner split DOR mentioned above, this would result in the potential new renters:

| | |
|---|---|
| 69 | Qualified Widows |
| 21,577 | Age 65 & Older |

| | |
|---|---|
| 4,979 | Disabled |
| 26,625 | New Renters Qualifying |

DOR notes that the average PTC credit for these renters would be approximately $232. Therefore, DOR assumes that the maximum income increase for renters would reduce general revenue by $6,174,926 (26,625* $232) in FY 2026.

*Renters – 2027*
DOR's data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $27,500 to $40,538.

| | |
|---|---|
| 250 | Qualified Widows |
| 65,541 | Age 65 & Older |
| 6,837 | Disabled |
| 72,628 | Total Income Qualifiers |

Using the renter/homeowner split DOR mentioned above, this would result in the potential new renters:

| | |
|---|---|
| 74 | Qualified Widows |
| 22,847 | Age 65 & Older |
| 5,257 | Disabled |
| 28,178 | New Renters Qualifying |

DOR notes that the average PTC credit for these renters would be approximately $236. Therefore, DOR assumes that the maximum income increase for renters would reduce general revenue by $6,655,972 (28,178 * $236) in FY 2027.

*Renters – Future Fiscal Years*
The PTC program is modified to allow the maximum income limit and the credit amount to inflation adjust annually. Therefore this proposal will continue to have a fiscal impact beyond the fiscal note years.

*Homeowners – 2024*
DOR's data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $30,000 to $42,200.

| | |
|---|---|
| 236 | Qualified Widows |
| 57,100 | Age 65 & Older |
| 6,080 | Disabled |
| 63,416 | Total Income Qualifiers |

Using the renter/homeowner split DOR mentioned above, this would result in the potential new homeowners:

| | |
|---|---|
| 166 | Qualified Widows |
| 37,195 | Age 65 & Older |
| 1,405 | Disabled |
| 38,767 | New Homeowners Qualifying |

DOR notes that the average PTC credit for these homeowners would be approximately $478. Therefore, DOR assume that the maximum income increase for homeowners would reduce general revenue by $18,530,603 (38,767 * $478) in FY 2024.

*Homeowners – 2025*
The data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $30,000 to $43,044.

| | |
|---|---|
| 255 | Qualified Widows |
| 60,826 | Age 65 & Older |
| 1,487 | Disabled |
| 62,568 | Total Income Qualifiers |

Using the renter/homeowner split DOR mentioned above, this would result in the potential new homeowners:

| | |
|---|---|
| 180 | Qualified Widows |
| 39,622 | Age 65 & Older |
| 1,487 | Disabled |
| 41,289 | New Homeowners Qualifying |

DOR notes that the average PTC credit for these homeowners would be approximately $489. Therefore, DOR assumes that the maximum income increase for homeowners would reduce general revenue by $20,192,122 (41,289 * $489) in FY 2025.

*Homeowners – 2026*
DOR's data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $30,000 to $43,905.

| | |
|---|---|
| 269 | Qualified Widows |
| 64,521 | Age 65 & Older |
| 6,780 | Disabled |
| 71,570 | Total Income Qualifiers |

Using the renter/homeowner split DOR mentioned above, this would result in the potential new homeowners:

| | |
|---|---|
| 190 | Qualified Widows |

| | |
|---|---|
| 42,029 | Age 65 & Older |
| 1,567 | Disabled |
| 43,786 | New Homeowners Qualifying |

DOR notes that the average PTC credit for these homeowners would be approximately $521. Therefore, DOR assumes that the maximum income increase for homeowners would reduce general revenue by $22,814,305 (43,786 * $521) in FY 2026.

*Homeowners - 2027*

The data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $30,000 to $44,783.

| | |
|---|---|
| 292 | Qualified Widows |
| 68,205 | Age 65 & Older |
| 7,130 | Disabled |
| 75,627 | Total Income Qualifiers |

Using the renter/homeowner split DOR mentioned above, this would result in the potential new homeowners:

| | |
|---|---|
| 206 | Qualified Widows |
| 44,429 | Age 65 & Older |
| 1,648 | Disabled |
| 46,283 | New Homeowners Qualifying |

DOR note that the average PTC credit for these homeowners would be approximately $533. Therefore, DOR assumes that the maximum income increase for homeowners would reduce general revenue by $24,663,488 (46,283 * $533) in FY 2027.

*Homeowners – Future Fiscal Years*
The PTC program is modified to allow the maximum income limit and the credit amount to inflation adjust annually. Therefore this proposal will continue to have a fiscal impact beyond the fiscal note years.

*Summary of the Maximum Income Limits*
Increasing the maximum limit would reduce general revenue starting in FY 2024 by $23,413,215. It is estimated to have an impact in the future:

Higher Maximum Income Limit

| Calendar Year | Fiscal Year | Renter | Homeowner | Total |
|---|---|---|---|---|
| 2024 | 2024 | ($4,882,612) | ($18,530,603) | ($23,413,215) |
| 2025 | 2025 | ($5,281,728) | ($20,192,122) | ($25,473,849) |

| | | | | |
|---|---|---|---|---|
| 2026 | 2026 | ($6,174,926) | ($22,814,305) | ($28,989,231) |
| 2027 | 2027 | ($6,655,972) | ($24,663,488) | ($31,319,460) |

Summary – Total Impact of Bill

These modifications to the Senior Property tax credit will reduce general and total state revenue as follows:

Table 6: Summary of GR Impact

| Fiscal Year | Renter | | Homeowner | | Total GR Loss |
|---|---|---|---|---|---|
| | Higher Income | Increased Credit | Higher Income | Increased Credit | |
| 2024 | ($4,882,612) | ($16,584,973) | ($18,530,603) | ($18,965,756) | ($58,963,944) |
| 2025 | ($5,281,728) | ($17,728,719) | ($20,192,122) | ($20,288,610) | ($63,491,178) |
| 2026 | ($6,174,926) | ($18,926,851) | ($22,814,305) | ($21,654,084) | ($69,570,166) |
| 2027 | ($6,655,972) | ($20,124,938) | ($24,663,488) | ($23,019,486) | ($74,463,884) |

This proposal will require DOR to make annual changes to their MO-PTC form, website and individual income tax computer system. Those costs are estimated at $7,193 per year.

**Oversight** notes that DOR & B&P provided information extrapolated directly from the Department's database. Whenever a taxpayer files for the tax credit, he or she must indicate the reason for the tax credit on the PTC form, or MO-1040 form. However, any taxpayer who has a disability and is over 65 will usually mark only one box for the qualification. Since the over 65 box is the first option to be marked on this form most of the taxpayer filing the PTC form will chose to mark the first box. Therefore, DOR notes, it is likely, there are many more in other categories who are unaccounted for.

**Oversight** notes DOR, for fiscal note purposes, held the population percentage between renters and homeowner constant; therefore, the proposal calculations could be underestimated. Therefore, Oversight will present the fiscal impact and reflect the totals could exceed the final estimated impact in the fiscal note.

**Oversight** notes that there is currently no independently produced data/statistics, or study, providing any similar statistic information on the specific subsets of taxpayer population presented in this proposal. Therefore, **Oversight** does not have any information to the contrary and will reflect B&P's and DOR's estimated fiscal impact in the fiscal note.

**Section 137.115 – Motor Vehicle Property Tax Assessment**

#Officials from the **Office of Administration - Budget and Planning (B&P)** note for tax year 2023, this proposal would county assessors to use a national publication other than the currently required NADA guide when determining the market value for motor vehicles. The STC shall determine which publication all assessors will use and the assessors may then use the values published in any of the three previous October issues.

#For tax years beginning with 2024, each county assessor must use the MSRP and then depreciate the motor vehicle value following the proposed 10-year depreciation schedule. B&P notes that the definition of motor vehicle includes all property required to be licenses and registered plus farm tractors and machinery which are capable of moving on the roads at low speeds. For used vehicles, county assessors are to take the 2023 market value and apply the appropriate depreciation rate(s) going forward.

#Using sales data published by the U.S. Bureau of Transportation Statistics, B&P was able to determine the average price for new vehicles from 1990 – 2021. B&P then used published articles to estimate the average sales price for new vehicles in 2022 and 2023. Based on research, B&P was able to obtain a depreciation schedule similar to the one historically shown in the NADA publications. In addition, DOR provided data to B&P with the number of motor vehicles registered in Missouri by model year. Table 1 shows the comparison between the estimated current depreciation schedules used in NADA versus the proposed schedule for model years 2003 - 2023. B&P notes that the amounts shown are the percentage of market value remaining after depreciation.

#Table 1: Proxy and Proposed Depreciation Schedule

| Model Year | Current Remaining Value | Proposed Remaining Value | Difference |
|---|---|---|---|
| 2023 | 85.0% | 85.0% | 0.0% |
| 2022 | 75.0% | 75.0% | 0.0% |
| 2021 | 67.5% | 67.5% | 0.0% |
| 2020 | 61.7% | 54.7% | (7.0%) |
| 2019 | 54.7% | 49.7% | (5.0%) |
| 2018 | 49.2% | 44.2% | (5.0%) |
| 2017 | 44.3% | 39.9% | (4.4%) |
| 2016 | 39.9% | 24.8% | (15.1%) |
| 2015 | 35.9% | 16.8% | (19.1%) |
| 2014 | 32.3% | 12.8% | (19.5%) |
| 2013 | 29.0% | 10.0% | (19.0%) |
| 2012 | 26.1% | 0.1% | (26.0%) |
| 2011 | 23.5% | 0.1% | (23.4%) |
| 2010 | 21.2% | 0.1% | (21.1%) |
| 2009 | 19.1% | 0.1% | (19.0%) |
| 2008 | 17.2% | 0.1% | (17.1%) |
| 2007 | 15.4% | 0.1% | (15.3%) |
| 2006 | 13.9% | 0.1% | (13.8%) |
| 2005 | 12.5% | 0.1% | (12.4%) |
| 2004 | 11.2% | 0.1% | (11.1%) |
| 2003 | 10.0% | 0.1% | (9.9%) |

**2002 and older estimates calculated, but not shown.*

#B&P then took the original sales data and applied the current depreciation schedule and the proposed schedule to determine the difference in market values. B&P notes that motor vehicles are then assessed at 33.33% of their market value, while farm machinery is assessed at 12% of market value. Table 2 shows the estimated average current and proposed assessed values for model years 2003 – 2023.

#Table 2: Estimated Current and Proposed Average Assessed Value

| Model Year | Est. Current Assessment | Est. Proposed Assessment | Difference | Model Year | Est. Current Assessment | Est. Proposed Assessment | Difference |
|---|---|---|---|---|---|---|---|
| 2023 | $14,213 | $14,213 | $0 | 2012 | $3,028 | $12 | ($3,016) |
| 2022 | $11,909 | $11,909 | $0 | 2011 | $2,789 | $12 | ($2,777) |
| 2021 | $10,218 | $10,218 | $0 | 2010 | $2,500 | $12 | ($2,488) |
| 2020 | $8,065 | $7,150 | ($915) | 2009 | $1,669 | $9 | ($1,660) |
| 2019 | $6,922 | $6,290 | ($632) | 2008 | $1,516 | $9 | ($1,507) |
| 2018 | $6,130 | $5,507 | ($623) | 2007 | $1,382 | $9 | ($1,373) |
| 2017 | $5,482 | $4,937 | ($545) | 2006 | $1,243 | $9 | ($1,234) |
| 2016 | $4,901 | $3,046 | ($1,855) | 2005 | $1,032 | $8 | ($1,024) |
| 2015 | $4,353 | $2,037 | ($2,316) | 2004 | $898 | $8 | ($890) |
| 2014 | $3,818 | $1,513 | ($2,305) | 2003 | $762 | $8 | ($754) |
| 2013 | $3,416 | $1,178 | ($2,238) | | | | |

**2002 and older estimates calculated, but not shown.*

#Using data published by STC, B&P estimates that the statewide average personal property tax rate is 6.8%. B&P notes that the Blind Pension Trust Fund levies a statewide property tax of $0.03 per $100 value. Table 3 shows the estimated state and local revenue impact by model year.

#Table 3: Estimated Revenue Impact by Model Year

| Model Year | # Registered MVs | Est. Blind Pension Loss | Est. Local Revenue Loss | Model Year | # Registered MVs | Est. Blind Pension Loss | Est. Local Revenue Loss |
|---|---|---|---|---|---|---|---|
| 2023 | 93,124 | $0 | $0 | 2011 | 233,800 | ($194,054) | ($43,718,262) |
| 2022 | 250,577 | $0 | $0 | 2010 | 204,757 | ($153,568) | ($34,300,893) |
| 2021 | 281,533 | $0 | $0 | 2009 | 170,742 | ($85,371) | ($19,083,833) |
| 2020 | 287,551 | ($77,639) | ($17,716,017) | 2008 | 241,668 | ($108,751) | ($24,522,052) |
| 2019 | 331,860 | ($63,053) | ($14,120,643) | 2007 | 244,129 | ($100,093) | ($22,569,726) |
| 2018 | 338,301 | ($64,277) | ($14,191,727) | 2006 | 234,404 | ($86,729) | ($19,476,628) |
| 2017 | 366,085 | ($58,574) | ($13,435,320) | 2005 | 221,323 | ($68,610) | ($15,260,221) |
| 2016 | 348,732 | ($195,290) | ($43,556,627) | 2004 | 214,644 | ($57,954) | ($12,861,468) |
| 2015 | 348,451 | ($240,431) | ($54,340,933) | 2003 | 179,193 | ($41,214) | ($9,097,629) |
| 2014 | 318,691 | ($219,897) | ($49,464,030) | 2002 and older | 1,403,602 | ($238,612) | ($54,529,938) |
| 2013 | 297,730 | ($199,479) | ($44,864,934) | **Total Estimated Impact** | | **($2,499,449)** | **($562,586,245)** |
| 2012 | 273,170 | ($245,853) | ($55,475,364) | | | | |

#Therefore, B&P estimates that this proposal could reduce revenues to the Blind Pension Trust Fund by up to $2,499,449 and local revenues by up to $562,586,245. B&P notes that this provision would affect tax year 2024 assessments, which are not collected until FY25.

<u>#B&P notes the following about the above estimates:</u>

- Sales date reflects actual sales and not MSRP. B&P notes that MSRP is typically higher (sometimes significantly) than the original actual sales price paid. Therefore, it is possible that newer vehicles could be assigned a higher market value (and hence assessed value and property tax liability) than they would under current law. This would result in a lower revenue loss than the amount shown above.
- This proposal would set all older vehicles (model year 2023 and prior) to their tax year 2023-estimated market value. B&P notes that tax year 2023 assessments are not yet complete. Therefore, in order to provide estimates, B&P applied the depreciation schedule to each model year's average original sales price. B&P notes that 2023 determined market values could vary significantly from the proxy value that B&P has estimated. This could result in a larger or smaller revenue loss than the amounts shown above.
- The historical depreciation schedule is based on pre-COVID depreciation patterns. B&P is unable to determine how quickly motor vehicle depreciation will return to pre-COVID levels. Therefore, actual revenue loss could be different from the amount shown above.
- These estimates are based on averages. These estimates do not include farm tractors or machinery. B&P does not have depreciation data on farm tractors or machinery. The composition of vehicle types, model years, etc. in any given location could result in significantly different revenue impacts than the estimates shown above.

Officials from the **Department of Revenue (DOR)** note property tax assessment is handled by the county assessors with assistance from the State Tax Commission. DOR defers to them for fiscal impact.

Officials from the **State Tax Commission (STC)** assume this has an unknown fiscal impact on local taxing jurisdictions such as school districts, counties, cities who rely on property tax assessments as a source of revenue. The bill would require additional FTE for the State Tax Commission to receive the Manufacturer Suggested Retail Price (MSRP) from a vendor and then configure that data to fit the multiple assessment programs used in the state. The cost of the data as well as the cost of licensing for each county in the state has been estimated to be less than $200,000.

**Oversight** is unsure when the STC will incur the additional costs and require the additional FTE. Therefore, Oversight will reflect this fiscal impact to the STC in fiscal years 2024 and 2025.

STC notes the bill allows for all currently assessed vehicles to use a previously assessed value in the depreciation schedule, but the MSRP would have to be obtained for each new vehicle and used vehicles purchased from outside of the state by Vehicle Identification Number. The current system uses average trade in value listed in the October issue of the National Automobile Dealers Association guide and that value will be less than the starting value of MSRP in most cases which could cause an increase in assessments. The use of a depreciation schedule would require that the vehicle values decrease each year regardless of the true market values which could cause a decrease in the assessments generated.

STC notes the depreciation schedule stopping after 10 years would cause a reduction due to approximately 50% of vehicles being removed from assessment and that would lead to approximately a 35% reduction of the total assessment for motor vehicles. The impact varies by county as the percentage of real and personal property in each county depends on several factors. STC notes the range of personal property assessed value compared to the total assessed value goes from 15.8% to 46.5% with the average being 29.5% in 2022, so the higher percentages would be impacted at greater amounts. The bill also includes farm machinery which would follow the same pattern as the motor vehicles. Farm machinery and equipment accounts for small percentage of the total personal property but it would have a greater impact on rural counties. The bill also requires all of the software used in the counties to meet minimum standards which could require a cost to some counties for upgrades.

Officials from the **Department of Social Services** note Section 137.115.9 is amended to require county assessors to use a nationally recognized automotive trade publication to determine the true value of motor vehicles for the tax year ending on or before December 31, 2023 and contains an emergency clause that will become effective upon passage and approval of this legislation. The state tax commission shall determine which publication shall be used. Section 137.115.10 is amended to state that beginning January 1, 2024, assessors are required to use the manufacturer's suggested retail price for all manufactured motor vehicles as acquired annually by the state tax commission for the original value in money of all motor vehicle assessment valuations.

The following depreciation schedule shall be applied to each manufacturer's suggested retail price:

| Year | Percent Depreciation |
|---|---|
| Current | 15 |
| 1 | 25 |
| 2 | 32.5 |
| 3 | 45.3 |
| 4 | 50.3 |
| 5 | 55.8 |

| | |
|---|---|
| 6 | 60.1 |
| 7 | 75.2 |
| 8 | 83.2 |
| 9 | 87.2 |
| 10 | 90 |
| Greater than 10 | 99.9 |

Blind Pension (BP) is funded from 0.03% of each $100 assessed valuation of taxable property. Assessing vehicles based on the suggested depreciation schedule could impact the amount received for the BP fund. According to the 2022 State Tax Commission Annual Report, $20,659,394,897 of the $135,215,666,531 total assessed valuation for the State of Missouri comes from vehicles including recreational vehicles. Therefore, approximately $6,197,818 [($20,659,394,897/100)*0.03] in property tax revenue is collected from motor vehicles.

Motor vehicles are currently assessed based on a recommended guide of information for determining the true value of a motor vehicle and includes vehicles that are greater than ten years of age in the assessment. According to the State Tax Commission, the proposed change to assess vehicles based on a depreciation schedule could result in a reduction in tax revenue from motor vehicles of up to 20%. Therefore, FSD estimates that the potential impact to the BP fund would be a decrease of up to $1,239,564 ($6,197,818*0.20).

According to the 2022 State Tax Commission Annual Report, $509,487,451 of the $135,215,666,531 total assessed valuation for the State of Missouri comes from Farm Machinery. Therefore, approximately $152,846 [($509,487,451/100)*0.03] is collected in the BP fund from Farm Machinery tax revenue. The State Tax Commission is unable to identify the age of farm machinery or provide an estimate on the effect of exempting farm machinery that is greater than ten years of age from taxation; therefore, the effect is unknown. The Family Support Division (FSD) assumes that it will result in a reduction in tax revenue from farm machinery of up to 20%. Therefore, FSD estimates that the tax revenue from farm machinery collected in the BP fund could decrease up to $30,569 ($152,846*0.20).

Therefore, FSD estimates that the fiscal impact to the BP fund as a result of the provisions in section 137.115 could be up to $1,270,133 ($1,239,564 + $30.569) in SFY 25 and ongoing.

The **County Employees' Retirement Fund (CERF)** indicates that this provision would likely result in reductions in contribution revenue to CERF of an unknown amount annually. A certain portion of the moneys that are used to fund the County Employees' Retirement Fund are tied to the collection of property taxes. Data is not available to quantify how changes to motor vehicle assessments would impact contribution revenue but CERF assumes there would be a negative impact.

#**Oversight** notes officials from the Office of Administration - Budget and Planning assume the proposal will have a direct fiscal impact on state revenues. Oversight does not have any information to the contrary. Therefore, Oversight will reflect B&P's estimated impact in the fiscal note.

# **Oversight** notes B&P's estimated impact <u>does not</u> include farm tractors or machinery. Oversight is unable to estimate the quantity and current value of farm machinery that may be impacted by this proposal. Oversight notes per the STC website, agricultural property makes up 1.45% of the total assessed value, or about $1,959,656,045. Oversight will show a negative unknown impact for this provision.

**Oversight** notes this section of the proposal has an emergency clause.

**Oversight** notes some taxing entities have tax rate ceilings that are at their statutory or voter approved maximum or are at a fixed rate. For these taxing entities, any decrease in the assessed values would not be offset by a higher tax rate (relative to current law), rather it would result in an actual loss of revenue.

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.)

Officials from the **Newton County Health Department** assume this would create a negative fiscal impact on the Newton County Health Department depending on the number of Newton County residents eligible for property tax reduction and the amount of decrease in property tax collected.

In response to a similar proposal, SB 493 (2023), officials from the **Howell County Assessor** assume there may be a minimal impact in revenue during the initial implementation of the provisions contained in this bill. In Howell County the impact is estimated to be less than $25,000.

The county notes this protects the citizens from the fluctuations in the automobile market and establishes a consistent methodology for valuing vehicles and will not harm local revenues.

In response to a similar proposal, SB 493 (2023), officials from the **Lincoln County Assessor** assume the cost for software updates could be substantial for Assessors and the STC

In response to a similar proposal, SB 493 (2023), officials from the **Ste Genevieve County Assessor** estimate the revenue loss if vehicles 20 yrs+ will be assessed at a $300 market value /

$100 assessed value at $38,704.60 for total revenue lost for the county and $657.98 loss in revenue to the assessment fund.

In response to a similar proposal, SB 493 (2023), officials from the **Adair County SB40 Board** note the county board currently has approximately $104M in Personal Property Assessed Valuation taxed at .1456 for an estimated Personal Property Tax revenue of $150,000. The local assessor estimated 61% of all vehicles are over 10 years old. It's difficult to calculate what the impact will be with a depreciation schedule of 20 years. The most important statement to understand is that ANY loss in property tax revenues WILL result in a reduction of essential services to people with intellectual and developmental disabilities in Adair County. Types of services that could be significantly reduced include sheltered employment, supported employment, transition services and other collaborative programs with the public schools, educational courses such as citizenship, relationships, healthcare self-advocacy, etc. Also, the agency's contribution of 20% share to leverage another 20% from state and 60% from federal Medicaid waiver dollars ('Partnership for Hope funds') would be reduced.

In response to a similar proposal, SB 493 (2023), officials from the **St Louis City SB40 Board** note per data from their county assessor, they assume the following fiscal impacts:

| | | | |
|---|---|---|---|
| | | **Before Legislation** | **Taxes** |
| **Vehicles** | **2013-2022** | 518,399,258 | $42,851,401 |
| | **2012 & Older** | 85,768,109 | $7,089,678 |
| | | **604,167,367** | **$49,941,079** |
| | | **After Legislation** | **Taxes** |
| | | 213,195,500 | $17,622,953 |
| **Difference from changes to vehicles** | | 390,971,867 | $32,318,126 |

| | | | |
|---|---|---|---|
| **Total 2022 PP Value at 33.33%** | | 1,259,655,321 | |
| **Vehicles** | | 604,167,367 | |
| **All other Personal Property** | **@ 33.33%** | 655,487,954 | $54,183,290 |
| | **Market Value** | 1,966,463,861 | |
| | **@ 31%** | 609,603,797 | $50,390,459 |
| | **AV decrease (non-vehicles)** | **45,884,157** | **$3,792,830** |

| | |
|---|---|
| Loss in taxes from change to 31% assessment rate and applying vehicle depreciation schedule | $32,318,126 |
| Loss in taxes from change to 31% assessment on personal property other than vehicles | $3,792,830 |
| Loss from Legislation to all taxing jurisdictions | $36,110,956 |

| | |
|---|---|
| City Portion (loss) | $7,226,909 |
| Developmentally Disabled (loss) | $598,493 |
| Loss to Collector of Revenue Fund | $541,664 |
| Loss to Assessment Fund | $225,693 |

**Sections 142.815, 142.822, and 142.824 - Donation of Motor Fuel Tax Refund**

Officials from the **Department of Revenue (DOR)** assume the following regarding this proposal:

Motor Fuel Refund Period Change (§142.822.2)
SB 262 adopted in 2021, created a provision that would increase the motor fuel tax rate over a period of five years. At the time, motor fuel (gasoline and diesel) were taxed at $0.17 per gallon. SB 262 would allow the motor fuel rate to increase each year on July 1st until the highest rate of $0.295 was reached. At that time, the motor fuel rate would remain $0.295 into the future.

The rate is currently increasing as follows:

| FY Tax Rate | Refund Can Be Claimed (July to Sept) | Tax Increase | Total Motor Fuel Tax | Fully Implemented (FY 2027) |
|---|---|---|---|---|
| FY 2022 | FY 2023 | $0.025 | $0.195 | |
| FY 2023 | FY 2024 | $0.05 | $0.220 | |
| FY 2024 | FY 2025 | $0.075 | $0.245 | |
| FY 2025 | FY 2026 | $0.1 | $0.270 | |
| FY 2026+ | FY 2027+ | $0.125 | $0.295 | $0 |

SB 262 also contained a provision that created a refund program for highway users who did not want to pay the increased motor fuel rate. While they would still be required to pay the tax at the fuel pump they could request from DOR that the increased amount be refunded to them. The refund period was established starting July 1- Sept 30th of the following fiscal year. Since the rate hike is for the full fiscal year (July to June) the refund period also covered that same fiscal year. In order to receive the refund a taxpayer completes a form with the statutorily required information and the extra motor fuel tax is refunded.

This proposal changes the refund period. Instead of claiming the credit from July to Sept after the fiscal year ends, this proposal moves the refund period to January 1st to April 15th of each year. Filing at this time of year, will result in refund claim forms having 2 separate motor fuel rates on them. This will start on January 1, 2024.

**Timing of Refund Claims**

| Date of Purchase | Fuel Tax Rate | Current Refund Timing | | Proposed Refund Timing | |
|---|---|---|---|---|---|
| | | Date | Fiscal Year | Date | Fiscal Year |
| 10/2021 - 12/2021 | $0.025 | 7/2022 - 9/2022 | FY 2023 | 7/2022 - 9/2022 | FY 2023 |
| 1/2022 - 6/2022 | $0.025 | 7/2022 - 9/2022 | FY 2023 | 7/2022 - 9/2022 | FY 2023 |
| 7/2022 - 12/2022 | $0.050 | 7/2023 - 9/2023 | FY 2024 | 1/2023 - 4/2023 | FY 2024 |
| 1/2023 - 6/2023 | $0.050 | 7/2023 - 9/2023 | FY 2024 | 7/2023 - 9/2023 | FY 2024 |
| 7/2023 - 12/2023 | $0.075 | 7/2024 - 9/2024 | FY 2025 | 1/2024 - 4/2024 | FY 2024 |
| 1/2024 - 6/2024 | $0.075 | 7/2024 - 9/2024 | FY 2025 | 1/2025 4/2025 | FY 2025 |
| 7/2024 - 12/2024 | $0.100 | 7/2025 - 9/2025 | FY 2026 | 1/2025 - 4/2025 | FY 2025 |
| 1/2025 - 6/2025 | $0.100 | 7/2025 - 9/2025 | FY 2026 | 1/2026 - 4/2026 | FY 2026 |
| 7/2025 - 12/2025 | $0.125 | 7/2026 - 9/2026 | FY 2027 | 1/2026 - 4/2026 | FY 2026 |
| 1/2026 - 6/2026 | $0.125 | 7/2026 - 9/2026 | FY 2027 | 1/2027 - 4/2027 | FY 2027 |
| 7/2026 - 12/2026 | $0.125 | 7/2027 - 9/2027 | FY 2028 | 1/2027 - 4/2027 | FY 2027 |

<u>This part of the proposal will not result in any additional gains or losses to the motor fuel funds than what was projected in SB 262. It changes the timing of the refunds and not who or how many taxpayers may qualify for the refund. So the impact below shows how much of the refunds will now shift to another fiscal year (refund period).</u>

DOR notes that the first refund period was completed from July 2022 to September 2022 for the increase that occurred from October 1, 2021 to June 30, 2022. That increase was $0.025. So it will not be impacted. DOR records indicate $423,947 in refunds were claimed, while receiving an additional $70,621,241 from the increased motor fuel rate. Therefore, DOR refunded approximately 0.6% ($423,947/$70,621,251) of the additional revenue.

DOR has done revenue estimates for SB 262, that were updated using the FY 2022 motor fuel gallons sold data for this fiscal note. Additionally, for SB 262, DOR had assumed a low range of refunds at 15% (based on another state with a similar program). DOR assumes that given the increasing price of the fuel tax and current economic conditions, more than the 0.6% refunds currently requested could be received in the upcoming fiscal years. For this fiscal note, DOR is showing the refund claims ranging from the current 0.6% to the 15% under SB 262 for the shift in the refund period.

**Estimated Cash Flow Impact from Refund Claim Due to Date Timing**

| | FY 2024 | | FY 2025 | | FY 2026 | |
|---|---|---|---|---|---|---|
| **State Fund** | **Low** | **High** | **Low** | **High** | **Low** | **High** |
| State Road Fund | ($513,112) | ($12,821,146) | ($171,037) | ($4,273,715) | ($171,037) | ($4,273,715) |
| **Local Funds** | | | | | | |
| CART | ($84,347) | ($2,107,586) | ($28,116) | ($702,529) | ($28,116) | ($702,529) |
| Other | ($105,434) | ($2,634,482) | ($35,145) | ($878,161) | ($35,145) | ($878,161) |
| Total Local | ($189,781) | ($4,742,068) | ($63,260) | ($1,580,689) | ($63,260) | ($1,580,689) |

This proposal will result in the Department needing to change the forms and the computer program to accept more than one tax rate at a time. This is estimated to cost **$10,000**. Having more than one motor fuel tax rate on the refund claim form may slow down the processing of the forms. DOR needs one Associate Customer Service Representative ($32,100) for every 6,000 claims processed at a single rate per year. Additionally, records indicate the average time to process a refund request was 19 days. If it is determined that additional FTE are needed to help process the refunds, DOR will seek those through the appropriation process.

Currently, taxpayers are allowed to submit these forms electronically or a hard copy mailed. Should the forms be mailed to DOR separate than their tax return, DOR assumes no additional impact. However, if a taxpayer mails their claim form with their individual income tax return, this could slow down the processing of the returns and require additional temporary staff ($12,750) to help sort out those claim forms.

SB 262 requires all refund requests to be processed within 45 days or DOR must pay interest on the claim. If moving the deadline results in slower processing times, this could result in an unknown amount of interest being paid.

**Oversight** assumes DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the programming costs related to this part of the 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 **Office of Administration - Budget and Planning (B&P)** assume the following regarding this proposal:

This proposal would change the timing for motor fuel tax refund claims for the additional fuel tax passed in SB 262 (2021). Currently, motor fuel tax refund claims must be made on a fiscal year basis (July through June motor fuel tax purchases) and refund claims must be made between July 1 and September 30 of the following fiscal year.

This proposal would change the refund claims to tax year (January through December) with claims to be made from January 15 through April 15 of the tax year following the year in which the motor fuel purchases were made. Table 1 shows the change in the refund due date depending on when the motor fuel is purchased.

**Table 1: Timing of Refund Claims**

| Date of Purchase | Fuel Tax Rate | Current Refund Timing | | Proposed Refund Timing | |
|---|---|---|---|---|---|
| | | Date | Fiscal Year | Date | Fiscal Year |
| 10/2021 - 12/2021 | $0.025 | 7/2022 - 9/2022 | FY 2024 | 7/2022 - 9/2022 | FY 2024 |
| 1/2022 - 6/2022 | $0.025 | 7/2022 - 9/2022 | FY 2024 | 7/2022 - 9/2022 | FY 2024 |
| 7/2022 - 12/2022 | $0.050 | 7/2023 - 9/2023 | FY 2025 | 1/2023 - 4/2023 | FY 2024 |
| 1/2023 - 6/2023 | $0.050 | 7/2023 - 9/2023 | FY 2025 | 1/2024 - 4/2024 | FY 2025 |
| 7/2023 - 12/2023 | $0.075 | 7/2024 - 9/2024 | FY 2026 | 1/2024 - 4/2024 | FY 2025 |
| 1/2024 - 6/2024 | $0.075 | 7/2024 - 9/2024 | FY 2026 | 1/2025 - 4/2025 | FY 2026 |
| 7/2024 - 12/2024 | $0.100 | 7/2025 - 9/2025 | FY 2026 | 1/2025 - 4/2025 | FY 2026 |
| 1/2025 - 6/2025 | $0.100 | 7/2025 - 9/2025 | FY 2026 | 1/2026 - 4/2026 | FY 2026 |
| 7/2025 - 12/2025 | $0.125 | 7/2026 - 9/2026 | FY 2027 | 1/2026 - 4/2026 | FY 2026 |
| 1/2026 - 6/2026 | $0.125 | 7/2026 - 9/2026 | FY 2027 | 1/2027 - 4/2027 | FY 2027 |

| | | | | | |
|---|---|---|---|---|---|
| 7/2026 - 12/2026 | $0.125 | 7/2027 - 9/2027 | FY 2028 | 1/2027 - 4/2027 | FY 2027 |

B&P notes that this part of the proposal would not change the number of taxpayers that qualify for the motor fuel tax refund, only the timing of the refund claims. Therefore, this proposal will not result in additional gains or losses beyond those already estimated in the TAFP fiscal note for SB 262 (2021).

The first round of refund claims were received between July 2022 and September 2022. B&P notes that the $0.025 increase in the fuel tax during FY 2022 generated refund claims of $423,947. Using the number of gallons sold, B&P estimates that the additional tax generated $70,621,251 in additional motor fuel revenue. Therefore, B&P estimates that highway use refund claims were approximately 0.6% ($423,947 / $70,621,251) of the additional fuel tax revenue.

However, as the fuel tax increases over the remaining years, it is likely that fuel tax refunds will also increase. Therefore, based on this new information, B&P has updated the refund estimates for SB 262 (2021). B&P will show refund claims ranging between 0.6% and 15% of the additional revenue generated.

While this proposal will not increase the overall number of refunds, this proposal will have a cash flow impact in FY 2024 through FY 2026 for all state and local fuel tax funds by moving some motor fuel refund claims into an earlier fiscal year. Using updated refund estimates for SB 262 (2021), B&P estimates that this proposal could increase refunds by $702,893 to $17,563,213 in FY 2024, depending on the number of qualifying taxpayers that make refund claims. In FY 2025 and FY 2026, refund claims may increase by $234,298 to $5,854,404 each year. There will no longer be a cash flow impact by FY 2027. Table 2 shows the estimated impacts by fund.

**Table 2: Estimated Cash Flow Impact from Refund Claim Due Date Timing**

| State Fund | FY 2024 | | FY 2025 | | FY 2026 | |
|---|---|---|---|---|---|---|
| | **Low** | **High** | **Low** | **High** | **Low** | **High** |
| State Road Fund | ($513,112) | ($12,821,146) | ($171,037) | ($4,273,715) | ($171,037) | ($4,273,715) |
| **Local Funds** | | | | | | |
| CART | ($84,347) | ($2,107,586) | ($28,116) | ($702,529) | ($28,116) | ($702,529) |
| Other | ($105,434) | ($2,634,482) | ($35,145) | ($878,161) | ($35,145) | ($878,161) |
| Total Local | ($189,781) | ($4,742,068) | ($63,261) | ($1,580,690) | ($63,261) | ($1,580,690) |

**Oversight** assumes this part of the proposal will not increase or decrease revenue; rather, only the timing of the motor fuel tax refunds will change. Oversight will reflect the cash flow estimates as provided by DOR and B&P as the estimates have been updated to reflect the actual amount that was refunded (0.6%) in FY 2022. Oversight will range the cash flow impact as DOR and B&P have indicated (from a low of 0.6% (actual) to an estimated 15%. Oversight notes, once all of the tax increases have gone into effect, there will be no further fiscal impact due to cash flow changes.

**Section 142.815, 142.822 & 142.824 Motor Fuel Refund given to Charity**

Officials from the **Department of Revenue (DOR)** note currently, taxpayers who purchase motor fuel for non-highway use (farms, boats) are allowed to claim a refund of the motor fuel tax they pay.

The taxpayer submits their receipts to the Department showing the gallons purchased with a refund request form. Once processed, the Department sends the taxpayer a refund of their motor fuel tax paid.

Starting October 1, 2023, this provision will allow the non-highway use taxpayer to provide their receipts to a federally qualified tax exempt entity (charity) who would claim the refund on the taxpayer's behalf. This is established as a way of donating money for the taxpayer to the charity. This provision then allows the taxpayer to receive a subtraction against their Missouri adjusted gross income of the amount donated. This subtraction is only allowed if the taxpayer does not claim the refund amount as a charitable contribution on their federal income tax form.

In FY 2022 the Department processed $9,146,015 in non-highway refund claims. The motor fuel rate at the time started at $0.17 per gallon and then increased to $0.19 per gallon. DOR estimates that refund claims were made for 49,071,081 gallons.

SB 262 adopted in 2021, established an increasing motor fuel tax rate of $0.025 per year until the rate increases $0.12 per gallon for a total of $0.295 per gallon. Accounting for the SB 262 increases, DOR estimates the total non-highway use refund claims could total $14,468,143 by tax year 2026. The estimated amount of non-highway related motor fuel tax refunds through the implementation of SB 262 is:

**Estimated Refunds by Year**

| Fiscal Year | Non-Highway Use Refunds |
|---|---|
| 2023 | $10,788,751 |
| 2024 | $12,013,963 |

| | |
|---|---|
| 2025 | $13,242,931 |
| 2026 | $14,468,143 |
| 2027 | $14,468,143 |

The Department is unable to determine how many of these taxpayers will choose to donate their receipts to a charity and then claim the deduction. For fiscal note purposes, DOR will show the loss up to the total amount estimated to be refunded.

The Department notes that deductions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, DOR will show the estimated impact to general revenue from the deduction throughout the implementation of SB 262 and with the individual income tax rate reductions scheduled under SB 3 (2022).

**Estimated Revenue Loss by Fiscal Year**

| Tax Rate | **Tax Year (Fiscal Year)** | | | | |
|---|---|---|---|---|---|
| | 2023 (FY24) | 2024 (FY25) | 2025 (FY26) | 2026 (FY27) | 2027 (FY 28) |
| 4.95% | ($534,043) | ($594,691) | ($655,525) | ($716,173) | ($716,173) |
| 4.80% | | ($576,670) | ($635,661) | ($694,471) | ($694,471) |
| 4.70% | | | ($622,418) | ($680,003) | ($680,003) |
| 4.60% | | | | ($665,535) | ($665,535) |
| 4.50% | | | | | ($651,066) |

This is a new subtraction that would need to be added to the MO-A form. This would require computer programming changes, form changes and website changes. These changes are estimated to cost $7,193. Additionally, this could result in additional errors and correspondence generated. Should the number of errors and correspondent justify the additional FTE, the Department will seek the additional FTE through the appropriation process.

- 1 FTE Associate Customer Service Representative ($31,200) for every 14,700 errors created
- 1 FTE Associate Customer Service Representative for every 5,700 pieces of correspondence generated

**Oversight** assumes DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the programming and personnel 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. **For fiscal note purposes, Oversight will assume 20% of these refunds will be donated. Therefore, Oversight will use 20% of DOR's estimates.**

**DOR** notes Section 142.822 will allow a taxpayer who purchases motor fuel for use on the highway to donate their increased motor fuel tax receipts to a charity. However, they are not granted a deduction for doing so.

Since the fiscal note for SB 262 assumed all eligible taxpayers would receive a refund of the increased motor fuel rate, and this proposal just changes who claims the refund, this is not expected to result in any additional fiscal impact from who claims the refund.

However, a person who donates to a charity has the ability to claim a deduction on their federal and state tax returns. If this proposal encourages more people to claim the federal charity deduction that could lower their federal adjusted gross income that is reported on their Missouri tax return. That in turn could lower the amount of taxes DOR receives. <u>It is unknown how many people would do this. This could result in a $0 to Unknown loss.</u>

<u>Section 142.822 Motor Fuel Refund</u>
SB 262 adopted in 2021 established an increasing motor fuel tax rate over the next five years. As part of the increasing rate, a procedure was established that allowed taxpayers to receive a refund of the increased motor fuel amount if they did not wish their increased motor fuel tax they paid to go to road improvements. To receive the refund a taxpayer had to submit an application with certain required information.

The application required:

- The VIN number of the vehicle that bought the fuel
- Date of sale of the fuel
- Name and address of the purchaser of fuel
- Name and address of the seller of the fuel
- Number of gallons purchased
- Number of gallons purchased and charged Missouri fuel tax

These records were to be maintained a minimum of three years for the Department to be able to do audits if needed.

This proposal changes the required information needed for claiming a refund. It removes the date of sale and name and address of the seller as required information. It only requires that the total number of gallons purchased be submitted. And it also only requires records to be maintained if provided.

In SB 262 the Department noted by receiving the originally required data the Department would ensure that each purchase was made in Missouri and charged the appropriate motor fuel tax and be able to ensure the same gallons were not reported by more than one vehicle. The Department would be able to audit to ensure more refunds were not paid out than actually purchased.

The changes proposed in this bill may increase the original refund estimates. No longer requiring proof of the sale date, or the address of the seller, may allow taxpayers to report gallons purchased in other states in their total gallons purchased. This could result in additional refunds paid out than actual motor fuel tax received.

No longer requiring that taxpayers keep records, may result in the Department being unable to audit records to ensure the appropriate number of gallons were refunded.

The Department is unable to determine the potential increased refunds that could be paid out under this proposal. It is unknown but could be expected to exceed $100,000 annually.

Officials from the **Office of Administration - Budget and Planning (B&P)** assume Sections 142.815 and 142.824 would allow taxpayers to donate their motor fuel tax refund, for non-highway use, to a non-profit entity beginning October 2023. B&P notes that the information requirements are not changed under this proposal, only who would receive the refund.

Section 142.815 would grant taxpayers a deduction for any refund claims they donated to charity. B&P notes that such taxpayer would only be allowed to claim the deduction in this section if they did not take the charitable deduction on their itemized federal and state income tax returns.

In FY 2022, total non-highway use refund claims were $9,146,015. B&P notes that these refunds were granted both before and after the motor fuel tax increased from $0.17 to $0.195 per gallon. Using the distribution of gallons sold between the two tax rate periods, B&P estimates that refund claims were made for 49,071,081 gallons.

B&P notes that under SB 262 (2021), the motor fuel tax is scheduled to increase by $0.025 per year, for five years, until the total motor fuel tax is $0.295. Accounting for the increases scheduled to occur under SB 262 (2021), B&P estimates that total non-highway use refund claims could total $14,468,143 by fiscal year 2026. Table 1 shows the estimated amount of non-highway related motor fuel tax refunds through the implementation of SB 262 (2021).

**Table 1: Estimated Refunds by Year**

| Fiscal Year | Non-Highway Use Refunds |
|---|---|
| 2023 | $10,788,751 |
| 2024 | $12,013,963 |
| 2025 | $13,242,931 |
| 2026 | $14,468,143 |
| 2027 | $14,468,143 |

B&P is unable to determine how many non-highway use refund claims may be donated to a non-profit entity. <u>Therefore, B&P will reflect the loss as "up to" the total amount claimed</u>.

B&P notes that deductions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from SB 3 (2022).

Therefore, B&P estimates that this proposal could reduce Total State Revenue (TSR) and General Revenue (GR) by up to $534,043 in FY 2024 (tax year 2023, top tax rate 4.95%). Once SB 3 (2022) and SB 262 (2021) fully implement, this proposal could reduce TSR and GR by up to $651,066 annually. Table 2 shows the estimated impact by top tax rate and year.

**Table 2: Estimated Revenue Loss by Fiscal Year**

| Tax Rate | Tax Year (Fiscal Year) | | | | |
|---|---|---|---|---|---|
| | 2023 (FY24) | 2024 (FY25) | 2025 (FY26) | 2026 (FY27) | 2027 (FY 28) |
| 4.95% | ($534,043) | ($594,691) | ($655,525) | ($716,173) | ($716,173) |
| 4.80% | | ($576,670) | ($635,661) | ($694,471) | ($694,471) |
| 4.70% | | | ($622,418) | ($680,003) | ($680,003) |
| 4.60% | | | | ($665,535) | ($665,535) |
| 4.50% | | | | | ($651,066) |

*Section 142.822 – Increased Motor Fuel Tax Refund*

Section 142.822 would allow taxpayers to donate their motor fuel tax refund, for non-highway use, to a non-profit entity beginning October 2023. B&P notes that the information requirements are not changed under this proposal, only who would receive the refund. B&P further notes that taxpayers are not granted an additional income tax deduction for any refunds donated. However, individuals could claim the donated refunds on their itemized federal and state income tax returns, under the existing charitable contribution itemized deduction. In addition, it is unknown if the ability to donate the fuel tax refund would encourage more refund claims than what would have otherwise occurred.

Therefore, B&P estimates that this provision could have an unknown negative impact on TSR and GR through potential charitable itemized deductions. This provision could also reduce the State Road Fund, as well as local fuel tax funds, through increased motor fuel tax refund claims.

Information Required for Motor Fuel Tax Refund (Section 142.822)
This proposal removes certain requirements currently necessary in order to claim the additional motor fuel tax under 142.803.3. Taxpayers would no longer be required to provide the date of sale, seller's name and address, as well as each fuel tax receipt.

B&P notes that this proposal would essentially prohibit DOR from completing any motor fuel tax refunds under this section, as taxpayers would no longer be required to keep or provide supporting documentation.

B&P notes that the estimates provided for SB 262 (2021) included the possibility that 100% of qualifying purchases were refunded. Therefore, while this provision makes it easier to claim the motor fuel tax refunds, no additional revenue loss is expected beyond what B&P originally estimated.

**Oversight** does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by DOR and B&P.
**Section 142.822.10 Mobile App**

Officials from the **Department of Revenue (DOR)** assume this proposal requires the Department to create a mobile application that will allow claims to be submitted on a person's phone at the time of motor fuel purchase. This proposal requires that the person be able to demonstrate the purchase at the pump. This will require the Department to create a mobile application that can interact with the current motor fuel system.

This proposal states the development and maintenance of the application should be paid out the fuel tax road fund. The Constitution designates how that money may be spent and the Department is unable to determine if this would be an approved expense.

It should be noted that this does not require the Department to refund the payment at the time of submission. DOR assumes the database will hold the submissions and DOR will refund during the approved period.

The Department estimates this system would cost at least $500,000.

**Oversight** does not have information to the contrary and therefore, Oversight will reflect the estimate for the mobile application as provided by the DOR to the State Road Fund.

Officials from the **Office of Administration - Budget and Planning (B&P)** assume Section 142.822.10 requires DOR to develop a mobile application that allows users to submit a refund claim at the time of fuel purchase, rather than making an annual claim for all purchases at once. B&P notes that if refund claims are made at the time of purchase, rather than on an annual basis, this could result in a cash flow impact where refunds that would have been claimed in year 2 are now claimed in year 1.

While this provision will not increase the overall number of refunds, it could have a cash flow impact in FY 2024 through FY 2026 for all state and local fuel tax funds by moving some motor fuel refund claims into an earlier fiscal year. However, there will no longer be a cash flow impact by FY 2027, once SB 262 (2021) has fully implemented.

B&P defers to DOR for the costs to develop and maintain a mobile application.

**Section 144.822.4(2) Income Tax Refund for Motor Fuel - Standard Refund**

Officials from the **Department of Revenue (DOR)** assume this proposal also adds a process by which a taxpayer can decide to file for a flat rate standard motor fuel refund amount rather than fill out the itemized refund form above. This standard refund would be claimed on their income tax return and would be subject to the following limits.

**Standard Refund Amount**

| Tax Year | Refund |
|---|---|
| 2023 | $30 |
| 2024 | $45 |
| 2025 | $60 |
| 2026 | $75 |

DOR records indicate that in tax year 2020, there were 3,250,763 Missouri individual income tax returns filed. Assuming that individuals who currently file the detailed refund form will continue to do so because of the size of their return exceeding the standard refund amount offered, DOR can assume there will be a potential 3,235,232 (3,250,763 income tax returns – 15,531 itemized returns) additional filers. This could result in the following estimated income tax claims per year.

**Standard Income Tax Claims by Year**

| Tax Year | Fiscal Year | Refund Claim |
|---|---|---|
| 2023 | 2024 | $97,056,960 |
| 2024 | 2025 | $145,585,440 |
| 2025 | 2026 | $194,113,920 |
| 2026 | 2027 | $242,642,400 |

This proposal in Section 142.822.5 requires both the itemized refund request and the standard refund request to be paid out of the money collected from the additional tax.

This proposal will require the Department to modify its MO-1040 and MO -1040P forms, website and individual income tax computer system. These changes are estimated to cost $7,193.

**Oversight** assumes DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the programming 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 **Office of Administration - Budget and Planning (B&P)** assume this proposal would allow individuals to either claim an itemized (receipts required) or standard (no receipts required) motor fuel tax rebate refund. B&P notes that individuals cannot claim both and the total amount of refunds granted cannot exceed the amount of revenues generated under Section 142.803. In addition, all refund claims must be paid from the motor fuel tax fund that receives collections under Section 142.803.

<u>Itemized Motor Fuel Refunds</u>
This proposal would change the timing for motor fuel tax refund claims for the additional fuel tax passed in SB 262 (2021). Currently, motor fuel tax refund claims must be made on a fiscal year bases (July through June motor fuel tax purchases) and refund claims must be made between July1 and September 30 of the following fiscal year.

This proposal would change the refund claims to tax year (January through December) with claims to be made from January 15 through April 15 of the tax year following the year in which the motor fuel purchases were made. Table 1 shows the change in the refund due date depending on when the motor fuel is purchased.

**Table 1: Timing of Refund Claims**

| Date of Purchase | Fuel Tax Rate | Current Refund Timing | | Proposed Refund Timing | |
|---|---|---|---|---|---|
| | | Date | Fiscal Year | Date | Fiscal Year |
| 10/2021 - 12/2021 | $0.025 | 7/2022 - 9/2022 | FY 2023 | 7/2022 - 9/2022 | FY 2023 |
| 1/2022 - 6/2022 | $0.025 | 7/2022 - 9/2022 | FY 2023 | 7/2022 - 9/2022 | FY 2023 |
| 7/2022 - 12/2022 | $0.050 | 7/2023 - 9/2023 | FY 2024 | 1/2023 - 4/2023 | FY 2024 |
| 1/2023 - 6/2023 | $0.050 | 7/2023 - 9/2023 | FY 2024 | 7/2023 - 9/2023 | FY 2024 |
| 7/2023 - 12/2023 | $0.075 | 7/2024 - 9/2024 | FY 2025 | 1/2024 - 4/2024 | FY 2024 |
| 1/2024 - 6/2024 | $0.075 | 7/2024 - 9/2024 | FY 2025 | 1/2025 - 4/2025 | FY 2025 |
| 7/2024 - 12/2024 | $0.100 | 7/2025 - 9/2025 | FY 2026 | 1/2025 - 4/2025 | FY 2025 |
| 1/2025 - 6/2025 | $0.100 | 7/2025 - 9/2025 | FY 2026 | 1/2026 - 4/2026 | FY 2026 |
| 7/2025 - 12/2025 | $0.125 | 7/2026 - 9/2026 | FY 2027 | 1/2026 - 4/2026 | FY 2026 |
| 1/2026 - 6/2026 | $0.125 | 7/2026 - 9/2026 | FY 2027 | 1/2027 - 4/2027 | FY 2027 |
| 7/2026 - 12/2026 | $0.125 | 7/2027 - 9/2027 | FY 2028 | 1/2027 - 4/2027 | FY 2027 |

B&P notes that this proposal would not change the number of taxpayers that qualify for the motor fuel tax refund, only the timing of the refund claims. Therefore, this proposal will not result in additional gains or losses beyond those already estimated in the TAFP fiscal note for SB 262 (2021).

The first round of refund claims were received between July 2023 and September 2023. B&P notes that the $0.025 increase in the fuel tax during FY22 generated refund claims of $423,947. Using the number of gallons sold, B&P estimates that the additional tax generated $70,621,251 in additional motor fuel revenue. Therefore, B&P estimates that highway use refund claims were approximately 0.6% ($423,947 / $70,621,251) of the additional fuel tax revenue.

However, as the fuel tax increases over the remaining years, it is likely that fuel tax refunds will also increase. Therefore, based on this new information, B&P has updated the refund estimates for SB 262 (2021). B&P will show refund claims ranging between 0.6% and 15% of the additional revenue generated.

While this proposal will not increase the overall number of refunds, this proposal will have a cash flow impact in FY24 through FY26 for all state and local fuel tax funds by moving some motor fuel refund claims into an earlier fiscal year. Using updated refund estimates for SB 252 (2021), B&P estimates that this proposal could increase refunds by $702,893 to $17,563,213 in FY24, depending on the number of qualifying taxpayers that make refund claims. In FY25 and FY26, refund claim may increase by $234,298 to $5,854,404 each year. There will no longer be a cash flow impact by FY21. Table 2 shows the estimated impacts by fund.

**Table 2: Estimated Cash Flow Impact from Refund Claim Due Date Timing**

| | **FY 2024** | | **FY 2025** | | **FY 2026** | |
|---|---|---|---|---|---|---|
| **State Fund** | **Low** | **High** | **Low** | **High** | **Low** | **High** |
| State Road Fund | ($513,112) | ($12,821,146) | ($171,037) | ($4,273,715) | ($171,037) | ($4,273,715) |
| **Local Funds** | | | | | | |
| CART | ($84,347) | ($2,107,586) | ($28,116) | ($702,529) | ($28,116) | ($702,529) |
| Other | ($105,434) | ($2,634,482) | ($35,145) | ($878,161) | ($35,145) | ($878,161) |
| Total Local | ($189,781) | ($4,742,068) | ($63,261) | ($1,580,690) | ($63,261) | ($1,580,690) |

Standard Income Tax Refunds

This proposal would allow taxpayers to take a standard refund, rather than the itemized receipt required rebate, beginning with tax year 2023. The standard refund would be claimed at the time an individual files their annual tax return. Table 3 shows the amounts of the standard refund by tax year.

**Table 3: Standard Refund Amount**

| Tax Year | Refund |
|---|---|
| 2023 | $35 |
| 2024 | $45 |
| 2025 | $65 |
| 2026 | $75 |

B&P notes that in tax year 2020, there were 3,250,763 Missouri individual income tax returns filed. Assuming that individuals who currently itemize their fuel tax returns continue to do so, B&P estimates that the standard refund may be claimed on 3,235,232 (3,250,763 income tax returns – 15,531 itemized returns). Table 4 shows the estimated income tax claims per year.

**Table 4: Income Tax Claims by Year**

| Tax Year | Fiscal Year | Refund Claim |
|---|---|---|
| 2023 | 2024 | $113,233,120 |
| 2024 | 2025 | $145,585,440 |
| 2025 | 2026 | $210,290,080 |
| 2026 | 2027 | $242,642,400 |

<u>Summary</u>
B&P estimates that this proposal could increase refunds from the State Road Fund by $83,173,290 to $95,481,323 in FY 2024, depending on the number of qualifying taxpayers that make refund claims. Once SB 262 (2021) fully implements, this proposal could increase refund claims from the State Road Fund by $65,513,448.

**Table 5: Standard and Itemized Refund Impact**

| State Fund | FY 2024 | | FY 2025 | |
|---|---|---|---|---|
| | **Low** | **High** | **Low** | **High** |
| State Road Fund | | | | |
| Standard Refund | ($82,660,178) | | ($106,277,371) | |
| Itemized Rebate | ($513,112) | ($12,821,146) | ($171,037) | ($4,273,715) |
| Total State Road Fund | ($83,173,290) | ($95,481,323) | ($106,448,409) | ($110,551,086) |
| | | | | |
| **Local Funds** | | | | |
| CART | | | | |
| Standard Refund | ($13,587,974) | | ($17,470,253) | |
| Itemized Rebate | ($84,347) | ($2,107,586) | ($28,116) | ($702,529) |
| Total CART | ($13,672,322) | ($15,695,560) | ($17,498,369) | ($18,172,781) |
| | | | | |
| Other Fuel Funds | | | | |
| Standard Refund | ($16,984,968) | | ($21,837,816) | |
| Itemized Rebate | ($105,434) | ($2,634,482) | ($35,145) | ($878,161) |
| Total Other Local | ($17,090,402) | ($19,619,450) | ($21,872,961) | ($22,715,977) |
| | | | | |
| Total Local | ($30,762,724) | ($35,315,010) | ($39,371,329) | ($40,888,758) |

**Table 5: Standard and Itemized Refund Impact**

| | FY 2026 | | FY 2027 | |
|---|---|---|---|---|
| **State Fund** | **Low** | **High** | **Low** | **High** |
| State Road Fund | | | | |
| Standard Refund | ($153,511,758) | | ($177,128,952) | |
| Itemized Rebate | ($171,037) | ($4,273,715) | $0 | $0 |
| Total State Road Fund | ($153,682,796) | ($157,785,474) | ($177,128,952) | ($177,128,952) |
| | | | | |
| **Local Funds** | | | | |
| CART | | | | |
| Standard Refund | ($25,234,810) | | ($29,117,088) | |
| Itemized Rebate | ($28,116) | ($702,529) | $0 | $0 |
| Total CART | ($25,262,925) | ($25,937,338) | ($29,117,088) | ($29,117,088) |
| | | | | |
| Other Fuel Funds | | | | |
| Standard Refund | ($31,543,512) | | ($36,396,360) | |
| Itemized Rebate | ($35,145) | ($878,161) | $0 | $0 |
| Total Other Local | ($31,578,657) | ($32,421,673) | ($36,396,360) | ($36,396,360) |
| | | | | |
| Total Local | ($56,841,582) | ($58,359,011) | ($65,513,448) | ($65,513,448) |

**Oversight** does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by DOR and B&P.

**Section 142.822.8 Weight Restriction Removed**

Officials from the **Department of Revenue (DOR)** assume SB 262 contained a provision that would not allow a vehicle over 26,000 pounds to qualify for the refund. This proposal removes that restriction and would allow them to qualify for the refund of the increasing fuel tax rate. To qualify, those vehicles over 26,000 pounds must provide documentation proving their motor vehicle is owned and licensed in Missouri by a corporation or sole proprietor and that the vehicle only operated in Missouri. Should it operate outside the state, the miles and fuel must be separated by what was used in Missouri and what was used outside Missouri.

This provision would become effective August 28, 2023, but due to the previous provision moving the refund filing period this will have a fiscal impact starting in FY 2024.

For the fiscal note of SB 262, the Department projected the motor fuel increase and the amount expected to be refunded if 15% of all taxpayers (low) applied for the refund and if 100% of the taxpayers (high) applied for the refund.

This range was based on a similar program in South Carolina that capped the number of participants at 15% and the total amount that could be claimed.  DOR used information on the number of actual vehicles and their average miles driven to estimate the refund amount.

While the first year of the program did not find the 15% filing for the refund, changes in the economic conditions and the increasing amount of the tax, indicates more taxpayers may claim the refund in the future.  Therefore, for the purpose of this fiscal note, DOR will continue to use that same 15%-100% participation.  Additionally, these heavier vehicles tend to use more fuel, which may encourage more participation in the refund program.

Based on information from its Motor Vehicle Databases, DOR was able to determine there are approximately 1.2 million vehicles that were ineligible for the refund based on their vehicles weight.  However, DOR was unable to determine how many of them would still not meet the requirements of this proposal.  For fiscal note purposes, DOR will assume <u>all</u> meet the new requirements and DOR notes the impact will be less than projected should some vehicles still not qualify.

DOR's FY 2022 motor fuel collections show there were 4,323,936,974 gallons of gasoline and diesel purchased in FY 2022.  Using these numbers, DOR was able to calculate newer revenues and potential refunds to SB 262.  DOR was able to calculate the potential refunds by removing the current qualifying vehicles.  These are the updated revenue and refund potential amounts.

**Table 1: Estimated Additional Refunds**

| | | FY 2024 | FY 2025 | FY 2026 | FY 2027 |
|---|---|---|---|---|---|
| Estimated Collections (prior FY) | | $216,196,849 | $324,295,273 | $432,393,697 | $540,492,122 |
| Estimated Current 100% Potential Refunds | - | $156,117,452 | $234,176,179 | $312,234,905 | $390,293,631 |
| Remaining Collections (for non-qualifying MVs) | | $60,079,396 | $90,119,094 | $120,158,792 | $150,198,491 |
| Estimated Low Additional Refund (15%) | | ($9,011,909) | ($13,517,864) | ($18,023,819) | ($22,529,774) |
| Estimated High Additional Refund (100%) | | ($60,079,396) | ($90,119,094) | ($120,158,792) | ($150,198,491) |
| Estimated Refunds for every 1% uptake | | ($600,794) | ($901,191) | ($1,201,588) | ($1,501,985) |
| Estimated Refunds for every 5% uptake | | ($3,003,970) | ($4,505,955) | ($6,007,940) | ($7,509,925) |

This has the potential to increase the amount of the refunds each year.

Motor fuel tax is distributed 73% to the State Road Fund, 15% to the Counties and 12% to the Cities. If a refund is claimed, the refund is withheld from the distribution in the same percentage. Therefore the funds would be impacted as follows:

| | FY 2024 | | FY 2025 | |
|---|---|---|---|---|
| | Low | High | Low | High |
| Counties | ($1,892,501) | ($12,616,673) | ($1,892,501) | ($12,616,673) |
| Cities | ($2,365,626) | ($15,770,842) | ($2,365,626) | ($15,770,842) |
| **Total Local** | ($4,258,127) | ($28,387,515) | ($4,258,127) | ($28,387,515) |
| **State Road Fund** | ($11,512,714) | ($76,751,429) | ($11,512,714) | ($76,751,429) |

| | FY 2026 | | FY 2027 | |
|---|---|---|---|---|
| | Low | High | Low | High |
| Counties | ($2,433,216) | ($16,221,437) | ($2,703,573) | ($18,023,819) |
| Cities | ($3,041,519) | ($20,276,796) | ($3,379,466) | ($22,529,774) |
| **Total Local** | ($5,474,735) | ($36,498,233) | ($6,083,039) | ($40,553,593) |
| **State Road Fund** | ($14,802,061) | ($98,680,408) | ($16,446,735) | ($109,644,898) |

The Department already has the forms and processes set up to handle these refunds. No additional fiscal impact is expected.

Summary

This proposal will have the following revenue impact:

**Consolidated Impact**

| | **FY 2024** | | **FY 2025** | |
|---|---|---|---|---|
| State Fund | Low | High | Low | High |
| **General Revenue** | | | | |
| Charity Deduction | ($576,670) | ($576,670) | ($622,418) | ($622,418) |
| Creation of the APP | ($500,000) | ($500,000) | | |
| **Total General Revenue** | ($1,076,670) | ($1,076,670) | ($622,418) | ($622,418) |
| | | | | |
| **State Road Fund** | | | | |
| Standard Refund | ($70,851,581) | ($70,851,581) | ($106,277,371) | ($106,277,371) |
| Itemized Rebate | ($513,112) | ($12,821,146) | ($171,037) | ($4,273,715) |
| Weight Limit Removed | ($11,512,714) | ($76,751,429) | ($11,512,714) | ($76,751,429) |
| **Total State Road Fund** | ($82,877,407) | ($160,424,156) | ($117,961,123) | ($187,302,515) |
| | | | | |
| Local Funds | | | | |
| **Counties** | | | | |
| Standard Refund | ($11,646,835) | ($11,646,835) | ($17,470,253) | ($17,470,253) |
| Itemized Rebate | ($84,347) | ($2,107,586) | ($28,116) | ($702,529) |
| Weight Limit Removed | ($1,892,501) | ($12,616,673) | ($1,892,501) | ($12,616,673) |
| **Total Counties** | ($13,623,683) | ($26,371,094) | ($19,390,870) | ($30,789,454) |
| | | | | |
| **Cities** | | | | |
| Standard Refund | ($14,558,544) | ($14,558,544) | ($21,837,816) | ($21,837,816) |
| Itemized Rebate | ($105,434) | ($2,634,482) | ($35,145) | ($878,161) |
| Weight Limit Removed | ($2,365,626) | ($15,770,842) | ($2,365,626) | ($15,770,842) |

| | | | | |
|---|---|---|---|---|
| Total Cities | ($17,029,604) | ($32,963,868) | ($24,238,587) | ($38,486,819) |
| **Total Local** | ($30,653,287) | ($59,334,962) | ($43,629,456) | ($69,276,273) |

**Consolidated Impact**

| | FY 2026 | | FY 2027 | |
|---|---|---|---|---|
| State Fund | Low | High | Low | High |
| **General Revenue** | | | | |
| Charity Deduction | ($665,535) | ($665,535) | ($651,066) | ($651,066) |
| **Total General Revenue** | ($665,535) | ($665,535) | ($651,066) | ($651,066) |
| | | | | |
| **State Road Fund** | | | | |
| Standard Refund | ($141,703,162) | ($141,703,162) | ($177,128,952) | ($177,128,952) |
| Itemized Rebate | ($171,037) | ($4,273,715) | $0 | $0 |
| Weight Limit Removed | ($14,802,061) | ($98,680,408) | ($16,446,735) | ($109,644,898) |
| **Total State Road Fund** | ($156,676,260) | ($244,657,285) | ($193,575,687) | ($286,773,850) |
| | | | | |
| Local Funds | | | | |
| **Counties** | | | | |
| Standard Refund | ($23,293,670) | ($23,293,670) | ($29,117,088) | ($29,117,088) |
| Itemized Rebate | ($28,116) | ($702,529) | $0 | $0 |
| Weight Limit Removed | ($2,433,216) | ($16,221,437) | ($2,703,573) | ($18,023,819) |
| **Total Counties** | ($25,755,002) | ($40,217,636) | ($31,820,661) | ($47,140,907) |
| | | | | |
| **Cities** | | | | |
| Standard Refund | ($29,117,088) | ($29,117,088) | ($36,396,360) | ($36,396,360) |
| Itemized Rebate | ($35,145) | ($878,161) | $0 | $0 |

| | | | | |
|---|---|---|---|---|
| Weight Limit Removed | ($3,041,519) | ($20,276,796) | ($3,379,466) | ($22,529,774) |
| **Total Cities** | ($32,193,752) | ($50,272,045) | ($39,775,826) | ($58,926,134) |
| | | | | |
| **Total Local** | ($57,948,754) | ($90,489,681) | ($71,596,487) | ($106,067,041) |

Officials from the **Office of Administration - Budget and Planning (B&P)** assume this proposal would allow motor fuel tax refund claims on fuel purchased for vehicles heavier than 26,000 pounds, if such vehicles are owned by a corporation or sole proprietorship located in Missouri. B&P notes that the language specifically lists corporations and sole proprietors; therefore, it is unclear whether other pass-through entities such as partnerships or LLCs would also qualify under this provision.

B&P notes that this proposal would become effective August 28, 2023, which is during the motor fuel refund request window of July 1, 2023 through September 30, 2023 for fuel tax purchases between July 2022 and June 2023. For the purpose of this fiscal note, B&P will assume that refund claims will increase from the repeal of Section 142.822.6 during the FY 2024 refund claim period. However, B&P acknowledges that not all newly qualifying taxpayers would have kept their fuel receipts because they do not qualify under current law.

B&P further notes that for the TAFP SB 262 (2021) fiscal note, B&P assumed that the amount of refunds would range between 15% and 100% of all qualified taxpayers, whose vehicles weighed less than 26,000 pounds. Therefore, under this proposal, B&P assumes that refund claims will still range between 15% and 100%; however, the number of qualifying vehicles would increase with the removal of the weight limit. In addition, B&P notes that heavier vehicles tend to use more motor fuel than lighter vehicles, which may incentivize a higher uptake in refund claims.

Using FY 2022 motor fuel tax collections, B&P estimates that there were 4,323,936,974 gallons of gasoline and diesel purchased during FY 2022. B&P then updated the TAFP SB 262 (2021) fiscal estimates for both revenues and potential refunds, under current law, using the newer gallons sold data. B&P then determined the amount of refunds that could remain after accounting for all currently qualifying vehicles. Table 1 shows the updated revenue and refund estimates.

**Table 1: Estimated Additional Refunds**

| | | FY 2024 | FY 2025 | FY 2026 | FY 2027 |
|---|---|---|---|---|---|
| Estimated Collections (prior FY) | | $216,196,849 | $324,295,273 | $432,393,697 | $540,492,122 |
| Estimated Current 100% Potential Refunds | - | $156,117,452 | $234,176,179 | $312,234,905 | $390,293,631 |
| Remaining Collections (for non-qualifying MVs) | | $60,079,396 | $90,119,094 | $120,158,792 | $150,198,491 |

| | | | | |
|---|---|---|---|---|
| Estimated Low Additional Refund (15%) | ($9,011,909) | ($13,517,864) | ($18,023,819) | ($22,529,774) |
| Estimated High Additional Refund (100%) | ($60,079,396) | ($90,119,094) | ($120,158,792) | ($150,198,491) |
| | | | | |
| Estimated Refunds for every 1% uptake | ($600,794) | ($901,191) | ($1,201,588) | ($1,501,985) |
| Estimated Refunds for every 5% uptake | ($3,003,970) | ($4,505,955) | ($6,007,940) | ($7,509,925) |

Therefore, B&P estimates that this proposal could increase motor fuel tax refunds by up to $9.0 million to $60.1 million in FY 2024. Once fully implemented, this proposal could increase motor fuel tax refunds by up to $22.5 million to $150.2 million annually.

However, as noted before, it is unknown how many additional refund claims will be made. B&P estimates that every 5% increase in refund claims could increase refund amounts by $7.5 million once fully implemented.

B&P notes that motor fuel tax collections are distributed 73% to the State Road Fund, 12% to the County Aid Road Trust Fund, 15% to other local funds. Therefore, B&P estimates that this proposal could reduce revenues to the State Road Fund by up to $6.6 million to $43.9 million and local revenues by up to $2.4 million to $16.2 million in FY 2024. Once TAFP SB 262 (2021) has fully implemented, this proposal could reduce revenues to the State Road Fund by up to $22.5 million to $150.2 million and local revenues by $6.1 million to up to $40.6 million annually. Table 2 shows the estimated impact by fund.

**Table 2: Estimated Impact By Fund**

| | **FY 2024** | | **FY 2025** | |
|---|---|---|---|---|
| **State Fund** | Low (15%) | High (100%) | Low (15%) | High (100%) |
| State Road Fund | ($6,578,694) | ($43,857,959) | ($9,868,041) | ($65,786,939) |
| **Local Funds** | | | | |
| CART | ($1,081,429) | ($7,209,528) | ($1,622,144) | ($10,814,291) |
| Other | ($1,351,786) | ($9,011,909) | ($2,027,680) | ($13,517,864) |
| Total Local | ($2,433,215) | ($16,221,437) | ($3,649,824) | ($24,332,155) |

**Table 2 (cont.): Estimated Impact By Fund**

| | FY 2026 | | FY 2027 | |
|---|---|---|---|---|
| **State Fund** | Low (15%) | High (100%) | Low (15%) | High (100%) |
| State Road Fund | ($13,157,388) | ($87,715,919) | ($16,446,735) | ($109,644,898) |
| **Local Funds** | | | | |
| CART | ($2,162,858) | ($14,419,055) | ($2,703,573) | ($18,023,819) |
| Other | ($2,703,573) | ($18,023,819) | ($3,379,466) | ($22,529,774) |
| Total Local | ($4,866,431) | ($32,442,874) | ($6,083,039) | ($40,553,593) |

Bill Summary
B&P estimates that this proposal could decrease state revenues by $95,220,047 to $172,766,796 and local funds by $35,020,850 to $63,702,525 in FY 2024. Once SB 3(2022) and all other provisions have implemented, this proposal may decrease state revenues by $194,226,753 to $287,424,916 and local revenues by $71,596,487 to $106,067,041. Table 1 shows the estimated impact by fiscal year.

**Table 1: Estimated Summary Impact**

| | FY 2024 | | FY 2025 | | FY 2026 | |
|---|---|---|---|---|---|---|
| **State Fund** | **Low** | **High** | **Low** | **High** | **Low** | **High** |
| General Revenue - Donations | ($534,043) | | ($576,670) | | ($635,661) | |
| State Road Fund | | | | | | |
| Standard Refund | ($82,660,178) | | ($106,277,371) | | ($153,511,758) | |
| Itemized Rebate | ($513,112) | ($12,821,146) | ($171,037) | ($4,273,715) | ($171,037) | ($4,273,715) |
| Weight Limit + Timing | ($11,512,714) | ($76,751,429) | ($11,512,714) | ($76,751,429) | ($14,802,061) | ($98,680,408) |
| Total State Road Fund | ($94,686,004) | ($172,232,753) | ($117,961,122) | ($187,302,515) | ($168,484,856) | ($256,465,881) |
| **Total State Impact** | **($95,220,047)** | **($172,766,796)** | **($118,537,792)** | **($187,879,185)** | **($169,120,517)** | **($257,101,542)** |
| **Local Funds** | | | | | | |
| CART | | | | | | |
| Standard Refund | ($13,587,974) | | ($17,470,253) | | ($25,234,810) | |
| Itemized Rebate | ($84,347) | ($2,107,586) | ($28,116) | ($702,529) | ($28,116) | ($702,529) |
| Weight Limit + Timing | ($1,892,501) | ($12,616,673) | ($1,892,501) | ($12,616,673) | ($2,433,216) | ($16,221,437) |
| Total CART | ($15,564,822) | ($28,312,233) | ($19,390,870) | ($30,789,455) | ($27,696,142) | ($42,158,776) |
| Other | | | | | | |
| Standard Refund | ($16,984,968) | | ($21,837,816) | | ($31,543,512) | |
| Itemized Rebate | ($105,434) | ($2,634,482) | ($35,145) | ($878,161) | ($35,145) | ($878,161) |
| Weight Limit + Timing | ($2,365,626) | ($15,770,842) | ($2,365,626) | ($15,770,842) | ($3,041,519) | ($20,276,796) |
| Total Other | ($19,456,028) | ($35,390,292) | ($24,238,587) | ($38,486,819) | ($34,620,176) | ($52,698,469) |
| **Total Local** | **($35,020,850)** | **($63,702,525)** | **($43,629,456)** | **($69,276,273)** | **($62,316,317)** | **($94,857,244)** |

**Table 1: Estimated Summary Impact**

| | FY 2027 | | FY 2028 | | FY 2029 | |
|---|---|---|---|---|---|---|
| **State Fund** | **Low** | **High** | **Low** | **High** | **Low** | **High** |
| General Revenue - Donations | ($680,003) | | ($665,535) | | ($651,066) | |
| State Road Fund | | | | | | |
| Standard Refund | ($177,128,952) | | ($177,128,952) | | ($177,128,952) | |
| Itemized Rebate | $0 | $0 | $0 | $0 | $0 | $0 |
| Weight Limit + Timing | ($16,446,735) | ($109,644,898) | ($16,446,735) | ($109,644,898) | ($16,446,735) | ($109,644,898) |
| Total State Road Fund | ($193,575,687) | ($286,773,850) | ($193,575,687) | ($286,773,850) | ($193,575,687) | ($286,773,850) |
| **Total State Impact** | **($194,255,690)** | **($287,453,853)** | **($194,241,222)** | **($287,439,385)** | **($194,226,753)** | **($287,424,916)** |
| **Local Funds** | | | | | | |
| CART | | | | | | |
| Standard Refund | ($29,117,088) | | ($29,117,088) | | ($29,117,088) | |
| Itemized Rebate | $0 | $0 | $0 | $0 | $0 | $0 |
| Weight Limit + Timing | ($2,703,573) | ($18,023,819) | ($2,703,573) | ($18,023,819) | ($2,703,573) | ($18,023,819) |
| Total CART | ($31,820,661) | ($47,140,907) | ($31,820,661) | ($47,140,907) | ($31,820,661) | ($47,140,907) |
| Other | | | | | | |
| Standard Refund | ($36,396,360) | | ($36,396,360) | | ($36,396,360) | |
| Itemized Rebate | $0 | $0 | $0 | $0 | $0 | $0 |
| Weight Limit + Timing | ($3,379,466) | ($22,529,774) | ($3,379,466) | ($22,529,774) | ($3,379,466) | ($22,529,774) |
| Total Other | ($39,775,826) | ($58,926,134) | ($39,775,826) | ($58,926,134) | ($39,775,826) | ($58,926,134) |
| **Total Local** | **($71,596,487)** | **($106,067,041)** | **($71,596,487)** | **($106,067,041)** | **($71,596,487)** | **($106,067,041)** |

**Oversight** does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by DOR and B&P.

Officials from the **Missouri Department of Transportation (MODOT)** assume the expansion of the motor fuel tax refund to motor vehicles that exceed 26,000 pounds would create an unknown negative fiscal impact if Missouri-based motor carriers licensed under the International Fuel Tax Agreement (IFTA) are included.

IFTA takes into account both gallons purchased, and gallons consumed within the state when determining a motor carrier's fuel tax owed. It is unclear if the language "delivered into a motor vehicle" is intended to apply to fuel purchased in Missouri, consumed in Missouri, or both.

Because IFTA is administered by MoDOT's Motor Carrier Services Division and other refunds are issued by the Department of Revenue, refunds could be issued more than once. The easing of reporting information for a refund would not satisfy the audit requirements for IFTA.

Allowing only Missouri-based carriers to be eligible for refunds for motor vehicles over 26,000 pounds may create an unfair interstate commerce practice.

MoDOT defers to DOR for the fiscal impacted expected from motor fuel tax refunds.

**Section 143.011 Individual Income Tax Rate Reduction**

Officials from the **Department of Revenue (DOR)** note 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.

This provision changes the rate for tax year 2024 to 4.5% and then allows the rest of the SB 3 rate reductions to continue for tax year 2024 and beyond. Therefore, the current and proposed rates are:

Current and Proposed Income Tax Rates

| Tax Year | Current (assumed) Rate | Proposed Rate |
|---|---|---|
| 2024 | 4.8% | 4.35% (4.5% - .15%) |
| 2025 | 4.8% | 4.35% |
| 2026 | 4.7% | 4.25% |
| 2027 | 4.6% | 4.15% |
| 2028+ | 4.5% | 4.05% |

The Department used its internal Income Tax Model that contains confidential taxpayer data to estimate 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:

By Tax Year

| Tax Year | Loss To General Revenue |
|---|---|
| 2024 | ($505,699,033) |
| 2025 | ($503,748,664) |
| 2026 | ($507,041,169) |
| 2027 | ($508,067,496) |
| 2028 | ($508,814,511) |

By Fiscal Year

| Fiscal Year | Loss to General Revenue |
|---|---|
| 2024 | ($211,574,439) |
| 2025 | ($504,879,878) |
| 2026 | ($505,131,516) |
| 2027 | ($507,472,226) |
| 2028 | ($508,381,243) |
| 2029 | ($508,814,511) |

This provision will require modification to the MO-1040 form and to the MO-1040P form. Additionally DOR will need to modify their website and their individual income tax computer system. These changes are estimated to cost $7,193.

At this time, the Department believes it can handle this work with existing resources. However, should DOR reach the number of errors or correspondence to justify additional FTE from this proposal or in combination with other proposals that will pass, DOR will seek the required number of FTE through the appropriation process. The Department is providing the number of errors or correspondence that require additional FTE.

1 FTE Associate Customer Service Rep for every 14,700 errors created
1 FTE Associate Customer Service Rep for every 5,700 pieces of correspondence generated

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would reduce the top income tax rate to 4.5% starting tax year 2024. B&P notes that this proposal retains the income tax reductions that are scheduled to occur under current law.

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 (0.15%), 2026 (0.1%), 2027 (0.1%), and 2028 (0.1%) under SB 3 (2022). Table 1 shows the current versus proposed individual income tax.

Table 1: Current Top Tax Rate vs Proposed Rate

| Tax Year | Current | Proposed |
|---|---|---|
| 2023 | 4.95% | N/A |
| 2024 | 4.80% | 4.35% |
| 2025 | 4.80% | 4.35% |
| 2026 | 4.70% | 4.25% |
| 2027 | 4.60% | 4.15% |
| 2028 | 4.50% | 4.05% |

**Assumes SB 3 (2022) reductions are triggered for tax years: 2024, 2026, 2027, and 2028.*

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 $514.7M for calendar year 2024. Once SB 3 (2022) has fully implemented, B&P estimates this provision could reduce tax collections by $517.9M annually. Table 2 shows the assumed top tax rates and estimate impact by calendar year.

Table 2: Impact by Tax Year

| Tax Year | GR Impact |
|---|---|
| 2024 | ($514,725,108) |
| 2025 | ($512,772,465) |
| 2026 | ($516,077,095) |
| 2027 | ($517,108,521) |
| 2028 | ($517,857,688) |

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 $216.2M in FY24. Once SB 3 (2022) has been fully implemented in FY29, and annually thereafter, this proposal may reduce TSR and GR by $517.9M. Table 3 shows the estimated impact from this section by fiscal year.

Table 3: Impact by Fiscal Year

| Fiscal Year | GR Impact |
|---|---|
| 2024 | ($216,184,545) |
| 2025 | ($513,904,998) |
| 2026 | ($514,160,410) |
| 2027 | ($516,510,294) |
| 2028 | ($517,423,171) |
| 2029 | ($517,857,688) |

**Section 143.022 – Business Income Exemption**

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would add Schedule F (farm income) and Form 4835 to the list of income types included within the business income exemption. B&P notes that Form 4835 is for farm rental income, which is included within Schedule E and is therefore already included within the existing exemption. Therefore, this proposal will only add Schedule F to the business income exemption.

B&P further notes that the business income exemption was fully implemented for tax year 2023, with a total exemption allowance of 20%. In addition, this proposal will start on August 28, 2023. Therefore, B&P assumes that the exemption would apply to tax year 2023 income.

Using tax year 2020 data, the most recent and complete year available, and accounting for SB 3 (2022), B&P estimates that this provision may reduce TSR and GR by $2,263,751 in FY24. Once SB 3 (2022) has fully implemented, B&P estimates that this provision could reduce TSR and GR by $2,024,840 annually. Table 1 shows the estimated impact by year.

Table 1: Estimated Impact by Year

| Tax Year | Fiscal Year | GR Loss |
|---|---|---|
| 2023 | 2024 | ($2,263,751) |
| 2024 | 2025 | ($2,163,156) |
| 2025 | 2026 | ($2,158,848) |
| 2026 | 2027 | ($2,111,498) |
| 2027 | 2028 | ($2,067,217) |
| 2028 | 2029 | ($2,024,840) |

Officials from the **Department of Revenue (DOR)** assume this proposal attempts to add the income of farmers as reported on two specific IRS forms to the business exemption. Those forms are the Schedule F and Form 4835. It should be noted the income reported on Form 4835 is reported onto the Schedule E which is already exempt per statutes.

The Department used its internal Income Tax Model that contains confidential taxpayer data to calculate the fiscal impact. SB 3 adopted in 2022, lowered the individual income tax rate to 4.95% starting January 1, 2023 and additionally is projected to lower the current tax rate down to 4.5% over a period of years based on revenue growth. DOR will show the impact through the implementation period.

The Department notes that this income is reported at the time of filing of the return and is will result in a loss to general revenue:

| Tax Year (Fiscal Year) | Amount |
|---|---|
| 2023 (FY 2024) | ($2,160,600) |
| 2024 (FY 2025) | ($2,155,065) |
| 2025 (FY 2026) | ($2,102,909) |
| 2026 (FY 2027) | ($2,055,404) |
| 2027 (FY 2028) | ($2,014,848) |

This proposal will require modification to the MO-A form and to the MO-1040 form. Additionally, DOR will need to modify their website and their individual income tax computer system. These changes are estimated to cost $7,193.

**Section 143.071 – Corporate Income Tax**

Officials from the **Office of Administration - Budget and Planning (B&P)** note Section 143.071.4 will reduce the corporate income tax 2%, starting with tax year 2024.

Section 143.071.5 would reduce the corporate income tax rate by an additional 1%, when net corporate income tax collections exceed the amount of net corporate income tax collections in FY25. B&P notes that because the rate reduction could not start until the calendar year after the trigger was met, tax year 2027 (FY26 vs FY25 corporate revenues) is the first possible year for the reduced rate. For the purpose of this fiscal note, B&P will assume the reduction is triggered for tax year 2027.

Section 143.071.6 would allow an additional 1% reduction, taking the corporate tax rate to 0%, beginning as early as the year after a reduction is triggered under subsection 5. In order for the additional rate reduction to occur, net GR in the immediately preceding fiscal year must exceed the net GR in the fiscal year in which the tax reduction under subsection 5 is triggered, by at least $250 million. For the purpose of this fiscal note, B&P will assume that the additional rate reduction occurs as early as tax year 2028.

Table 4 shows the proposed corporate tax rates.

Table 4: Proposed Corporate Tax Rate

| Tax Year | Current | Proposed |
|---|---|---|
| 2023 | 4.00% | N/A |
| 2024 | 4.00% | 2.00% |
| 2025 | 4.00% | 2.00% |
| 2026 | 4.00% | 2.00% |
| 2027 | 4.00% | 1.00% |
| 2028 | 4.00% | 0.00% |

*Assume Section 143.071.5 triggered for tax year 2027.
Assumes Section 143.071.6 triggered for tax year 2028.

B&P notes that under Section 148.720, RSMo, the financial institutions tax (formerly known as the bank franchise taxes) (Sections 148.030, 148.140, and 148.620, RSMo.) shall be reduced by a proportional amount to any reduction in the corporate income tax. However, **Section 143.071.8(2)** states that the proposed tax rate reductions and elimination under Section 143.071 shall not impact the financial institutions tax.

In FY22, net corporate tax collections were $711,062,676 at a tax rate of 4.0%.

B&P estimates that reducing the corporate income tax could reduce GR by $355.5 million beginning with tax year 2024. Once fully implemented, B&P estimates this provision could reduce corporate income tax collections by $711.0 million annually. Table 5 shows the estimated impact by tax year.

Table 5: Estimated Impact by Tax Year

| Tax Year | GR Impact |
|---|---|
| 2024 | ($355,531,338) |
| 2025 | ($355,531,338) |
| 2026 | ($355,531,338) |
| 2027 | ($533,297,007) |
| 2028 | ($711,062,676) |

* Assume Section 143.071.5 triggered for tax year 2027. Assumes Section 143.071.6 triggered for tax year 2028.

However, because this proposal would take effect January 1, corporations would adjust their declarations payments during FY24. Based on historic remittance patterns, B&P notes that corporate income tax collections are split approximately 50/50 between fiscal years. Table 6 shows the estimate impact on general revenue by fiscal year.

Table 6: Corporate Income Tax Reduction by Fiscal Year

| Fiscal Year | GR Impact |
|---|---|
| FY24 | ($177,765,669) |
| FY25 | ($355,531,338) |
| FY26 | ($355,531,338) |
| FY27 | ($444,414,173) |
| FY28 | ($622,179,842) |
| FY29 | ($711,062,676) |

* Assume Section 143.071.5 triggered for tax year 2027. Assumes Section 143.071.6 triggered for tax year 2028.

Therefore, B&P estimates that this proposal could reduce TSR and GR by $177.8 million in FY24. Once fully implemented, this proposal could reduce TSR and GR by $711.0 million annually.

B&P notes that **Section 143.071.8(1)** would prevent the use of corporate tax income tax credits once the corporate income tax has been eliminated. B&P notes that the average amount of tax credits taken against corporate income tax was $92,343,664 from FY20 – FY22. However, B&P also notes that corporations could still sell or transfer tax credits. B&P further assumes that this would not impact withholding retention tax credits as they are not taken against corporate income tax, but are instead a retention of employee's individual income tax.

In addition, the use of net collections to estimate the potential impact from this proposal already includes the potential that corporate tax credits would no longer be redeemed. Therefore, removing the $92.3 million in corporate tax credits from the estimated impact would double count the potential revenue gain.

Officials from the **Department of Revenue (DOR)** note the current corporate tax rate is 4% a year. The FY 2022 net collections were $711.1 million. Starting January 1, 2024 this proposal will reduce the corporate tax rate to 2% for tax year 2024. Since this proposal is effective January 1, 2024 it is assumed only 6 months of collections will be impacted in FY 2024.

Then starting in tax year 2026, this proposal provides that another 1% reduction can occur if the amount of revenue received in FY 2025- 2026 exceeds the FY 2024-2025 collections by $50 million. If it does, the 1% rate reduction will occur starting the following tax year. Therefore, the earliest this reduction could occur is tax year 2027.

Additionally in Section 143.071.6, this proposal establishes a procedure by which the corporate tax rate could be reduced to zero. It says that if the FY 2028 net general revenue collections are greater than $250 million over the FY 2027 net general revenue collections then the corporate rate will be reduced to zero. At this time, the Department is unable to predict if reducing the corporate rate to 1% would increase revenue by the $250 million for the trigger.

This provision then allows a final reduction to 0% if it meets the $250 million trigger. This will result in a loss to general revenue.

| Corporate Rate Reduction | FY 2024 | FY 2025 | FY 2026 | FY 2027 | FY 2028 | FY 2029 |
|---|---|---|---|---|---|---|
| | ($177,765,669) | ($355,531,338) | (355,531,338) | ($444,414,173) | ($533,297,007) | ($711,062,676) |

This provision in Section 143.071.8(1) states that upon the corporate tax rate being eliminated, corporations would no longer be allowed to claim tax credits. Many of the state tax credits are allowed to be sold, transferred and assigned and it is assumed corporations would continue that practice. Additionally some companies may choose to no longer participate in tax credit programs, freeing up credits for other organizations to claim.

Per Section 148.720 whenever there is a reduction in the corporate tax rate there shall be a proportional decrease in the financial institutions tax. However, section 143.071.8(2) states this proposal will not cause a reduction or elimination of the financial institutions tax under Chapter 148. Therefore this provision will not have a fiscal impact.

This provision will result in changes needing to be made to their computer programs and forms. These changes are estimated at $7,193.

**Section 143.114 – ESOP Income Deduction**

Officials from the **Office of Administration - Budget and Planning (B&P)** note this program extends the current income tax deduction for capital gains related to certain employee stock ownership sales. B&P notes that this is an extension of an existing program. Therefore, this provision will not impact TSR or the calculation under Article X, Section 18(e).

Officials from the **Department of Revenue (DOR)** note this proposal extends the Employee Stock Ownership Plan Deduction. This deduction was to sunset on December 31, 2022 and the sunset language is removed thereby assuring this deduction will be permanent. Extending or removing the sunset language of an existing program is not expected to have impact.

For informational purposes, this deduction began in 2017. No one claimed the credit in 2017. In 2018, 17 people claimed the credit. However, in 2019 & 2020 more than zero but less than the minimum reportable number filed for this deduction. Under Section 32.057, the Department does not disclose the number of tax returns or amounts claimed if the number is so low it could identify the taxpayer. The minimum number of returns to report is 10. What DOR can provide is the grand total claimed from 2017-2020 which was $722,342.

**Section 143.124 – Pension Income Subtraction**

Officials from the **Office of Administration - Budget and Planning (B&P)** note:

*Individual Retirement Distributions*
Currently taxpayers may subtract $6,000 of their individual retirement income, if their Missouri Adjusted Gross Income (MAGI) is less than $25,000 for taxpayers filing single or head of household and $32,000 for married filing combined taxpayers. B&P notes that these payments would include IRAs and 401(k) plans.

This proposal would allow taxpayers to subtract $12,000 of their retirement income, if their MAGI is less than $50,000 for singles and $64,000 for married filing combined taxpayers.

Based on data published by the IRS, B&P estimates that this provision may exempt up to $356,706,746 in individual retirement arrangement payments for taxpayers filing single,

$119,123,284 for taxpayers filing head of household, and $366,736,152 for married filing joint taxpayers; for a total of up to $763,701,991 in income exempted under this section.

However, exemptions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from SB 3 (2022). Consequently, B&P estimates that exempting individual retirement arrangement payments could reduce TSR and GR by $37,803,249 (top tax rate 4.95%) or by $36,657,696 (top tax rate 4.8%) in FY25. Once SB 3 (2022) has fully implemented, this provision could reduce TSR and GR by $34,366,590 annually.

*Pensions and Annuities*
B&P notes that the term "pensions and annuities" includes both public and private retirement funds. For the purpose of this fiscal note, B&P used tax year 2020 (the most recent complete year available) Missouri tax return data to estimate the percentage of payments from public pensions and annuities versus private pensions and annuities.

In tax year 2020, 61% of pension and annuity payments were from private funds and 39% were from public funds for individuals filing single. For married filing combined individuals, 51% of payments were from private funds, while 49% were from public funds. For taxpayers filing as head of household, 58% of pension and annuity payments were from private sources, while 42% were from public sources.

*Private Pensions and Annuities*
Currently taxpayers may exempt $6,000 of their private pension and annuity income, if their Missouri Adjusted Gross Income (MAGI) is less than $25,000 for taxpayers filing single or head of household and $32,000 for married filing combined taxpayers.

This proposal would allow taxpayers to subtract $12,000 of their retirement income, if their MAGI is less than $50,000 for singles and $64,000 for married filing combined taxpayers.

Based on data published by the IRS, B&P estimates that this provision may exempt up to $749,989,260 in private pension and annuity payments for taxpayers filing single, $231,810,834 for taxpayers filing head of household, and $509,493,355 for married filing joint taxpayers; for a total of up to $231,810,834 in income exempted under this section.

However, exemptions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from SB 3 (2022). Consequently, B&P estimates that exempting individual retirement arrangement payments could reduce TSR and GR by $58,933,237 (top tax rate 4.95%) or by $57,147,381 (top tax rate 4.8%) in FY25. Once SB 3 (2022) has fully implemented, this provision could reduce TSR and GR by $53,575,670 annually.

*Self-Employed (Keogh) Payments*
Currently taxpayers may exempt $6,000 of their Keogh retirement income, if their Missouri Adjusted Gross Income (MAGI) is less than $25,000 for taxpayers filing single or head of household and $32,000 for married filing combined taxpayers.

This proposal would allow taxpayers to subtract $12,000 of their retirement income, if their MAGI is less than $50,000 for singles and $64,000 for married filing combined taxpayers.

Based on data published by the IRS, B&P estimates that this provision may exempt $3,566,765 in Keogh payments for taxpayers filing single, $1,160,709 for taxpayers filing head of household, and $5,160,139 for married filing joint taxpayers; for a total of $1,160,709 in income exempted under this section.

However, exemptions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from SB 3 (2022). Consequently, B&P estimates that exempting individual retirement arrangement payments could reduce TSR and GR by $451,327 (top tax rate 4.95%) or by $437,650 (top tax rate 4.8%) in FY25. Once SB 3 (2022) has fully implemented, this provision could reduce TSR and GR by $410,297 annually.

*Pension Subtraction Summary*
B&P estimates that this proposal could reduce TSR and GR by $97,187,813 (top tax rate 4.95%) or by $94,242,727 (top tax rate 4.8%) in FY25. Once SB 3 (2022) has fully implemented, this proposal could reduce TSR and GR by $88,352,557 annually. Table 1 shows the estimated loss by provision, while Table 2 shows the estimated loss by tax and fiscal year.

Table 1: Estimated Loss by Retirement Income

| Retirement Income | 4.95% | 4.8% | 4.7% | 4.6% | 4.5% |
|---|---|---|---|---|---|
| Individual Retirement Distributions | ($37,803,249) | ($36,657,696) | ($35,893,994) | ($35,130,292) | ($34,366,590) |
| Pensions/Annuities (Private) | ($58,933,237) | ($57,147,381) | ($55,956,811) | ($54,766,240) | ($53,575,670) |
| Self-Employed (Keogh) | ($451,327) | ($437,650) | ($428,532) | ($419,415) | ($410,297) |
| **Total GR Loss** | **($97,187,813)** | **($94,242,727)** | **($92,279,337)** | **($90,315,947)** | **($88,352,557)** |

Table 2: Estimated Loss by Fiscal Year

| | Tax Year (Fiscal Year) | | | |
|---|---|---|---|---|
| Tax Rate | 2024 (FY25) | 2025 (FY26) | 2026 (FY27) | 2027 (FY28) |
| 4.95% | ($97,187,813) | ($97,187,813) | ($97,187,813) | ($97,187,813) |
| 4.80% | ($94,242,727) | ($94,242,727) | ($94,242,727) | ($94,242,727) |
| 4.70% | | ($92,279,337) | ($92,279,337) | ($92,279,337) |
| 4.60% | | | ($90,315,947) | ($90,315,947) |
| 4.50% | | | | ($88,352,557) |

Officials from the **Department of Revenue (DOR)** note this proposal is changing the taxability of retirement income. Currently, depending on the type of retirement benefit and the taxpayer's Missouri adjusted gross income (MAGI) some of the benefits are taxable.

*Public Retirement Benefits*
Per statutes, any retirement benefits other than public pension benefits are eligible to receive up to the first $6,000 in income from retirement benefits as an exemption from taxation. This would include pensions from private companies, 401(k), deferred compensation plans, annuities, and self-employed retirement plans (Keogh). This exemption is only allowed for individual taxpayers with a MAGI of less than $25,000 or for those filing a combined return of up to $32,000 MAGI.

Starting January 1, 2024, this proposal would increase the $6,000 to $12,000 for taxpayers. It would also increase the number of people eligible for this exemption by increasing the MAGI of individual filers to $50,000 and the MAGI of combined filers to $64,000. This will increase the number of people eligible for this exemption.

*Impact*
The Department notes these changes are to begin for tax years starting January 1, 2024 and therefore will not fiscally impact the state until FY 2025 based on when the tax returns are filed claiming the exemption.

DOR used information reported by taxpayers on their federal returns to start the calculation of the additional revenue that may be exempt from tax. Then DOR used their internal Individual Income Tax Database for Missouri DOR found the following distribution of filers of public and private pensions.

| Pensions | Public | Private |
|---|---|---|
| Singles | 39% | 61% |
| Married Filing Joint | 49% | 51% |
| Head of Household (HOH) | 42% | 58% |

Here is the estimated loss per benefit type:

Estimated Loss by Retirement Income

| Retirement Income | 4.95% | 4.80% | 4.70% | 4.60% | 4.50% |
|---|---|---|---|---|---|
| Individual Retirement Distributions | ($37,803,249) | ($36,657,696) | ($35,893,994) | ($35,130,292) | ($34,366,590) |
| Pensions/Annuities (Private) | ($58,933,237) | ($57,147,381) | ($55,956,811) | ($54,766,240) | ($53,575,670) |
| Self-Employed (Keogh) | ($451,327) | ($437,650) | ($428,532) | ($419,415) | ($410,297) |
| **Total GR Loss** | **($97,187,813)** | **($94,242,727)** | **($92,279,337)** | **($90,315,947)** | **($88,352,557)** |

SB 3 adopted in 2022 set the individual income tax rate at 4.95% in tax year 2023. The tax rate is scheduled to continue to reduce over a period of several years until the rate equals 4.5%. Due to the tax change proposed in this bill, this would result in an estimated loss by the Fiscal Year. For fiscal note purposes, DOR will show the loss at each of those tax rates over SB 3's implementation period. This will result in a loss to general revenue. DOR estimates the loss to general revenue:

Estimated Loss by Fiscal Year

| | Tax Year (Fiscal Year) | | | |
|---|---|---|---|---|
| Tax Rate | 2024 (FY25) | 2025 (FY26) | 2026 (FY27) | 2027 (FY28) |
| 4.50% | ($88,352,557) | ($88,352,557) | ($88,352,557) | ($88,352,557) |
| 4.35% | ($85,407,471) | ($85,407,471) | ($85,407,471) | ($85,407,471) |
| 4.25% | | ($83,444,082) | ($83,444,082) | ($83,444,082) |
| 4.15% | | | ($81,480,691) | ($81,480,691) |
| 4.05% | | | | ($79,517,301) |

**Administrative Impact**
This proposal will require modification to the MO-A form and to the MO-1040P form. Additionally DOR will need to modify their website and their individual income tax computer system. These changes are estimated to cost $7,193.

At this time the Department believes it can handle this work with existing resources. However, should DOR reach the number of errors or correspondence to justify additional FTE from this proposal or in combination with other proposals that will pass, DOR will seek the required number of FTE through the appropriation process. The Department is providing the number of errors or correspondence that require additional FTE.

1 FTE Associate Customer Service Rep for every 14,700 errors created
1 FTE Associate Customer Service Rep for every 5,700 pieces of correspondence generated

**<u>Section 143.125 – Social Security Retirement Income</u>**

Officials from the **Office of Administration - Budget and Planning (B&P)** note this section would eliminate the income limits for the individual income tax exemption for social security payments beginning with tax year 2024. Currently taxpayers who are married filing joint may exempt 100% of their social security income, if their Missouri Adjusted Gross Income (MAGI) equal to or less than $100,000. All other taxpayers may exempt 100% of social security income if their MAGI is equal to or less than $85,000.

This proposal would allow all taxpayers, regardless of income, to subtract up to the maximum social security benefit. To prevent double counting the potential revenue impact, B&P will reflect the potential impact under the proposed income tax brackets found in Section 143.011.

Based on data published by the IRS, B&P estimates that this section may exempt $689,197,344 in social security payments for taxpayers filing single, $172,665,756 for taxpayers filing head of household, and $2,353,388,312 for married filing joint taxpayers; for a total of $3,215,251,412 in income exempted under this section.

However, exemptions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from this proposal and SB 3 (2022).

B&P estimates that this section could reduce TSR and GR by $144,686,314 (top tax rate 4.5%) or by $139,863,436 (top tax rate 4.35%) in FY25. Once this proposal and SB 3 (2022) have fully implemented, this section could reduce TSR and GR by $130,217,682 annually.

Table 7: Social Security Subtraction by Fiscal Year

| | Tax Year (Fiscal Year) | | | |
|---|---|---|---|---|
| Tax Rate | 2024 (FY25) | 2025 (FY26) | 2026 (FY27) | 2027 (FY28) |
| 4.50% | ($144,686,314) | ($144,686,314) | ($144,686,314) | ($144,686,314) |
| 4.35% | ($139,863,436) | ($139,863,436) | ($139,863,436) | ($139,863,436) |
| 4.25% | | ($136,648,185) | ($136,648,185) | ($136,648,185) |
| 4.15% | | | ($133,432,934) | ($133,432,934) |
| 4.05% | | | | ($130,217,682) |

Officials from the **Department of Revenue (DOR)** note this provision is changing the taxability of social security payments. Some social security benefits are taxable depending on the amount of income a person has at the federal level, while other amounts are not. Generally, at the federal level if a taxpayer's income is under $25,000 and they file as an individual or $35,000 if they file a combined return, the social security benefits are not taxable. For any income over those amounts then social security benefits are taxable and the taxable portion is calculated into the taxpayer's federal adjusted gross income (FAGI).

Under Missouri law, if social security benefits are included in a taxpayer's FAGI, and the taxpayer's MAGI is over $85,000 for an individual or $100,000 for those that file combined, their social security is taxable in Missouri. If a taxpayers has a MAGI of less than $85,000 for an individual or $100,000 for those filing combined, then they are allowed to deduction up to the social security maximum from their Missouri taxable income.

The maximum social security benefits a person receives is based on when they start to take the social security benefits and how much they paid into the system through the years. A person can take early social security benefits at 62 receiving a lesser amount of benefits. Social security benefits are considered full benefits starting at age 67, based on the year of a person's birth. The maximum social security benefits are given when a person does not take social security until they reach 70. The maximum social security benefit for 2023 is $43,524. It should be noted that social security annually adjusts the benefit numbers.

This provision starting January 1, 2024, will remove the MAGI limitation determining the taxable portion of social security. If a taxpayer included any portion of their social security benefits into their FAGI they will be allowed a deduction from their Missouri return up to the $43,524 limit of what they claimed in the FAGI.

While currently SB 3 adopted in 2022 set the individual income tax rate at 4.95% in tax year 2023 with the rate scheduled to continue to reduce over a period of several year, this bill is changing those rates. For fiscal note purposes, DOR will show the loss at each of this year's individual income tax rates for the implementation period. This will result in a loss to general revenue. DOR estimates the loss to general revenue:

| Estimated Loss of Social Security Benefits | | | | | |
|---|---|---|---|---|---|
| Retirement Income | 4.50% | 4.35% | 4.25% | 4.15% | 4.05% |
| Social Security | ($144,686,314) | ($139,863,436) | ($136,648,185) | ($133,432,934) | ($130,217,682) |

Therefore it could result in a loss to general revenue.

Table 2: Estimated Loss by Fiscal Year of Social Security Benefits

| | Tax Year (Fiscal Year) | | | |
|---|---|---|---|---|
| Tax Rate | 2024 (FY25) | 2025 (FY26) | 2026 (FY27) | 2027 (FY28) |
| 4.50% | ($144,686,314) | ($144,686,314) | ($144,686,314) | ($144,686,314) |
| 4.35% | ($139,863,436) | ($139,863,436) | ($139,863,436) | ($139,863,436) |
| 4.25% | | ($136,648,185) | ($136,648,185) | ($136,648,185) |
| 4.15% | | | ($133,432,934) | ($133,432,934) |
| 4.05% | | | | ($130,217,682) |

This provision will require modification to the MO-1040, MO-A and the MO-1040P forms. Additionally DOR will need to modify their website and their individual income tax computer system. These changes are estimated to cost $7,193.

At this time, the Department believes it can handle this work with existing resources. However, should DOR reach the number of errors or correspondence to justify additional FTE from this proposal or in combination with other proposals that will pass, DOR will seek the required number of FTE through the appropriation process. The Department is providing the number of errors or correspondence that require additional FTE.

1 FTE Associate Customer Service Rep for every 14,700 errors created
1 FTE Associate Customer Service Rep for every 5,700 pieces of correspondence generated

**Section 143.161 – Tax Deduction for Unborn Children**

Officials from the **Office of Administration - Budget and Planning (B&P)** note starting tax year 2024, this proposal would grant a $2,400 tax deduction for each qualifying dependent in the year a woman gives birth. The deduction shall only be granted for children that the taxpayer is eligible to receive the federal dependent deduction. The taxpayer cannot claim this deduction and the deduction under subdivision 1 (dependent deduction – live births) or subdivision 3 (stillbirth deduction).

B&P notes that this proposal would only grant the taxpayer who has given birth the deduction. Therefore, male or female spouses/partners cannot claim this deduction. This would prevent a married couple from claiming the deduction if only the non-birthing parent has income.

B&P notes that subdivision 3 prevents a taxpayer from claiming this deduction and the dependent or stillbirth deductions. B&P further notes that per the federal Tax Cut and Jobs Act (TCJA, 2017), the federal dependent deduction is set at $0. In addition, HB 2540 (2018) clarified that as long as the federal deduction is set at $0, there is no Missouri dependent or stillbirth deduction allowed. However, the TCJA is set to expire for tax year 2026 unless reauthorized by Congress. B&P notes that taxpayers would choose this deduction in years that they qualify as the dependent and stillbirth deductions are $1,200 for each qualifying child, while this deduction is $2,400 for each qualifying child.

Based on data published by DHSS, on average there were 72,468 live births from 2016-2020.

Therefore, B&P estimates that this proposal could exempt approximately $173,924,160 (72,468 x $2,400). However, deductions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from SB 3 (2022). Table 2 shows the estimated impact by year.

Table 1: Estimated Revenue Loss by Fiscal Year

| | Tax Year (Fiscal Year) | | | |
|---|---|---|---|---|
| Tax Rate | 2024 (FY25) | 2025 (FY26) | 2026 (FY27) | 2027 (FY28) |
| 4.95% | ($8,609,246) | ($8,609,246) | ($8,609,246) | ($8,609,246) |
| 4.80% | ($8,348,360) | ($8,348,360) | ($8,348,360) | ($8,348,360) |
| 4.70% | | ($8,174,436) | ($8,174,436) | ($8,174,436) |
| 4.60% | | | ($8,000,511) | ($8,000,511) |
| 4.50% | | | | ($7,826,587) |

Therefore, B&P estimates that this provision could reduce TSR and GR by $8,609,246 (top tax rate 4.95%) or by $8,348,360 (top tax rate 4.8%) in FY25. Once SB 3 (2022) has fully implemented, this proposal could reduce TSR and GR by $7,826,587 annually.

Officials from the **Department of Revenue (DOR)** note currently in statutes a person is allowed an individual income tax deduction ($1,200) for the following:

143.161.1 a dependency deduction
143.161.2 a head of household deduction
143.161.3 a stillbirth exemption.

In December of 2017, the Tax Cuts and Jobs Act passed at the federal level set the dependency deduction at zero. HB 2540 adopted in 2018, by the Missouri General Assembly, added language to Missouri's dependency deduction that makes the state deduction zero if the federal deduction is zero. Because of the language of HB 2540 Missouri's dependent deduction went to zero in 2018.

This proposal attempts to create another deduction (Section 143.161.4). This would allow a taxpayer to claim a deduction in a year in which the taxpayer gives birth to a child. The deduction would be $2,400 for each child for which the taxpayer is entitled to a dependency exemption even if the dependency exemption is zero. Therefore in 2024, a woman who gives birth to a child would be eligible to receive a $2,400 deduction for that child.

The Department notes there are approximately 71,554 children born annually in Missouri. Which would result in $171,729,600 ($2,400 deduction * 71,554 kids) being taken in deductions annually. A deduction is not a dollar for dollar reduction of revenue but is based on that tax rate in effect at the time. This proposal states it is to begin with tax years 2024 and the estimated tax rate for 2024 is 4.8%. Therefore this would result in a loss to general revenue of $8,243,021 ($171,729,600 * .048).

It should be noted that per SB 3 (2022) and this proposed legislation the tax rate is scheduled to drop in future years. The amount of revenue loss would depend on the tax rate at that time.

| Tax Rate | 2024 (FY25) | 2025 (FY26) | 2026 (FY27) | 2027 (FY28) |
|---|---|---|---|---|
| | Low | Low | Low | Low |
| 4.35% | ($7,470,238) | ($7,470,238) | ($7,470,238) | ($7,470,238) |
| 4.25% | | ($7,298,508) | ($7,298,508) | ($7,298,508) |
| 4.15% | | | ($7,126,778) | ($7,126,778) |
| 4.05% | | | | ($6,955,049) |

This would be a new deduction that would need to be added to the MO-1040, to DOR's website and to their individual income tax computer filing system. These changes are estimated at $7,193. Additionally, to prevent fraud DOR would require information on the children being claimed such as name and social security number. This would require the creation of a new form estimated at $10,000. DOR assumes they would need at least one Associate Customer Service Representative ($31,200) for processing these returns. Should enough additional errors or correspondence be generated to require additional FTE DOR would seek those FTE through the appropriation process.

1 FTE Associate Customer Service Rep for every 14,700 errors created
1 FTE Associate Customer Service Rep for every 5,700 pieces of correspondence generated

**Oversight** notes this provision begins January 1, 2024, and the tax returns claiming the deduction would be filed starting in FY 2025.

**Oversight** will show the fiscal impact of this provision assuming the scheduled general revenue dependent rate reductions under SB 3 (2022) are triggered consecutively. (Top tax rate of 4.8% in 2024 (FY 2025 and 4.7% in 2025 (FY 2026)

**Oversight** notes B&P states the current TCJA is set to expire for tax year 2026 unless reauthorized by Congress. Therefore, Oversight will assume taxpayers may be able to take the current deduction (143.161.1) for tax year 2026 (FY 2027). Therefore, Oversight will reflect the fiscal impact in FY 2027 of the difference between the $1,200 deduction and the $2,400 deduction, ranged to the full impact if Congress extents the TCJA.

Therefore, for the purpose of this fiscal note, **Oversight** will show DOR's projected fiscal estimated impacts of this provision throughout the implementation of the future tax rate reductions from SB 3 (2022) to show the maximum low and high impact of this provision.

__**Section 273.050 (Repealed) – Local Option Dog Tax**__

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would remove the annual payment due date and allow dogs to remain in Missouri if the local option dog tax (Section 273.060) is not paid. However, this proposal does not remove the actual local tax levy, only the statute containing the due date. Therefore, it would be possible for a local jurisdiction to still levy the tax and set their own annual due date. B&P notes that such local tax is not currently levied in any county in Missouri. This provision will not impact TSR or the calculation under Article X, Section 18(e).

**Responses regarding the proposed legislation as a whole**

**Oversight** will note the one-time cost at $60,351, associated with the updates of DOR's income tax system for all sections within the proposal, in the fiscal note beginning FY 2024.

Officials from the **Department of Commerce and Insurance, Department of Public Safety – Highway Patrol, Office of Administration,** and the **Office of the State Auditor** 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.

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

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** only reflects the responses received from state agencies and political subdivisions; however, other county officials 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 2024 (10 Mo.) | FY 2025 | FY 2026 | Fully Implemented (FY Unknown) |
|---|---|---|---|---|
| | | | | |
| **GENERAL REVENUE FUND** | | | | |
| | | | | |
| Revenue Loss – §135.010 & §135.030 - Changes to the Property Tax Credit program p. (3-17) | Could exceed ($58,963,944) | Could exceed ($63,491,178) | Could exceed ($69,570,166) | Could exceed ($74,463,884) |
| | | | | |
| Costs – State Tax Commission – §137.115 - Software/programming and additional FTE costs p. (18) | (Unknown, less than $200,000) | (Unknown, less than $200,000) | (Unknown, less than $200,000) | (Unknown, less than $200,000) |
| | | | | |
| Revenue Loss - §§142.815, 142.822 & 142.824 – decrease in state taxes paid due to the ability to donate motor fuel tax refunds to charity and claim as a deduction on state taxes p. (28-29) | ($106,809) | ($115,334) | ($127,132) | ($136,001) |
| | | | | |
| Revenue Loss - §143.011 - Individual Income Tax Rate Reduction p. (53-56) | ($211,574,439) | ($504,879,878) | ($505,131,516) | ($508,381,243) |
| | | | | |
| Revenue Loss - §143.022 –Business Exemption p. (56-57) | ($2,263,751) | ($2,163,156) | ($2,158,848) | Could exceed ($2,158,848) |
| | | | | |
| Revenue Loss - §143.071 - Corporate | ($177,765,669) | ($355,531,338) | ($355,531,338) | ($711,062,676) |

| | | | | |
|---|---|---|---|---|
| Income Tax Rate Reduction p. (57-61) | | | | |
| | | | | |
| Revenue Loss – §143.114 Employee Stock Ownership Deduction – extends sunset date p. (61) | (Unknown) | (Unknown) | (Unknown) | (Unknown) |
| | | | | |
| Revenue Loss - §143.124 – Retirement Income Tax Deduction p. (61-65) | $0 | ($94,242,727) | ($92,279,337) | ($90,315,947) |
| | | | | |
| Revenue Loss - §143.125 Social Security Benefit Tax Exemption p. (65-67) | $0 | ($139,863,436) | ($136,648,185) | ($133,432,934) |
| | | | | |
| Revenue Loss – Unborn Child Income Tax Deduction §143.161 – p. (68-70) | $0 | ($8,243,021) | ($8,071,291) | ($4,035,646 to ($8,071,291) |
| | | | | |
| Costs - DOR §143.161 p. (68-70) | | | | |
| Personal Service | $0 | ($31,824) | ($32,460) | ($32,460) |
| Fringe Benefits | $0 | ($27,195) | ($27,427) | ($27,427) |
| Exp. & Equip. | $0 | $0 | $0 | $0 |
| Total Costs - | $0 | ($85,827) | ($59,887) | ($59,887) |
| FTE Change | 0 FTE | 1 FTE | 1 FTE | 1 FTE |
| | | | | |
| Costs – DOR – Form, computer, and IIT changes – p. (70) | ($60,351) | $0 | $0 | $0 |
| | | | | |
| **ESTIMATED NET EFFECT ON GENERAL REVENUE** | **Could exceed ($450,934,963)** | **Could exceed ($1,168,815,895)** | **Could exceed ($1,169,777,700)** | **Could exceed ($1,524,247,066 to $1,528,282,711)** |
| | | | | |

| | | | | |
|---|---|---|---|---|
| Estimated Net FTE Change on General Revenue | 0 FTE | 1 FTE | 1 FTE | 1 FTE |
| | | | | |
| **STATE ROAD FUND** | | | | |
| | | | | |
| Costs – DOR – §142.822 - development of app to claim motor fuel tax refunds at the pump p. (38) | Could exceed ($500,000) | $0 | $0 | $0 |
| | | | | |
| Cash Flow – timing of the motor fuel tax refunds – moved up to CY instead of FY p. (43-44) | ($513,112 to $12,821,146) | ($171,037 to $4,273,715) | ($171,037 to $4,273,715) | $0 |
| | | | | |
| Revenue Loss – §142.822 - increase in fuel tax refunds due to eliminating certain required information p. (37) | (Unknown) | (Unknown) | (Unknown) | (Unknown) |
| | | | | |
| Revenue Loss – §142.822 - increased motor fuel tax refunds due to the elimination of the weight limit for vehicles to claim refunds p. (43-44) | ($11,512,714 to $76,751,429) | ($11,512,714 to $76,751,429) | ($14,802,061 to $98,680,408) | ($16,446,735 to $109,644,898) |
| | | | | |
| Revenue Loss – taxpayers claiming the standard refund vs. the itemized refund p. (43-44) | ($82,660,178) | ($106,277,371) | ($153,511,758) | ($177,128,952) |
| | | | | |
| **ESTIMATED NET EFFECT ON STATE ROAD FUND** | **Could exceed ($95,186,004** | **Could exceed ($117,961,122 to $187,302,515)** | **Could exceed ($168,484,856 to $256,465,881)** | **Could exceed ($193,575,687** |

| | | | | |
|---|---|---|---|---|
| | **to $172,732,753)** | | | **to $286,773,850)** |
| | | | | |
| | | | | |
| **BLIND PENSION FUND** | | | | |
| | | | | |
| Revenue Loss - §137.115.9 – motor vehicles - reduction in property taxes from change in personal property assessed valuation method p. (19-20) | $0 | #($2,499,449) | #($2,499,449) | #Could exceed ($2,499,449) |
| | | | | |
| Revenue Change - §137.115.9 – farm machinery - reduction in property taxes from change in personal property assessed valuation method p. (23) | $0 | #(Unknown) | #(Unknown) | #(Unknown) |
| | | | | |
| **ESTIMATED NET EFFECT ON BLIND PENSION FUND** | **$0** | **#Could exceed ($2,499,449)** | **#Could exceed ($2,499,449)** | **#Could exceed ($2,499,449)** |

| FISCAL IMPACT – Local Government | FY 2024 (10 Mo.) | FY 2025 | FY 2026 | Fully Implemented (FY Unknown) |
|---|---|---|---|---|
| | | | | |
| **LOCAL POLITICAL SUBDIVISIONS** | | | | |
| | | | | |
| Costs – Counties – §137.115 - to administer the changes in assessment from this proposal p. (17-25) | (Unknown) | (Unknown) | (Unknown) | (Unknown) |

| | | | | |
|---|---|---|---|---|
| Revenue Loss - §137.115.9 – motor vehicles - reduction in property taxes from change in personal property assessed valuation method p. (19-20) | $0 | #Up to ($562,586,245) | #Up to ($562,586,245) | #Up to ($562,586,245) |
| | | | | |
| Revenue Loss - §137.115.9 – farm machinery - reduction in property taxes from change in personal property assessed valuation method p. (23) | $0 | #(Unknown) | #(Unknown) | #(Unknown) |
| | | | | |
| Cash Flow – (Cities and Counties) timing of the motor fuel tax refunds (§142.822) p. (37) | ($189,781 to $4,742,068) | ($63,261 to $1,580,690) | ($63,261 to $1,580,690) | $0 |
| | | | | |
| Revenue Loss – (Cities and Counties) increase in fuel tax refunds due to eliminating certain required information (§142.822) p. (30) | (Unknown) | (Unknown) | (Unknown) | (Unknown) |
| | | | | |
| Revenue Loss – taxpayers claiming the standard refund vs. the itemized refund p. (38-39) | ($30,572,942) | ($39,308,069) | ($56,778,322) | ($65,513,488) |
| | | | | |
| Revenue Loss – increase in motor fuel tax refunds due to eliminating the weight | ($4,258,127 to $28,387,515) | ($4,258,127 to $28,387,515) | | ($6,083,039 to $40,553,593) |

| | | | | |
|---|---|---|---|---|
| limit restriction p. (42-48) | | | ($5,474,735 to $36,498,233) | |
| | | | | |
| **ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVSIONS** | **Could exceed ($35,020,850 to $63,702,525)** | **#Could exceed ($606,215,702 to $631,862,519)** | **#Could exceed ($624,902,923 to $657,443,490)** | **#Could exceed ($634,182,772 to $668,653,326)** |

FISCAL IMPACT – Small Business

Section 137.115 - Small businesses that own personal property could see a reduction in property taxes.

Sections 142.815, 142.822 & 142.824 - Small businesses that purchase motor fuel could be impacted as a result of this proposal.

Section 143.022 - This provision would positively impact small businesses that qualify for the exemption as described in the proposal.

FISCAL DESCRIPTION

This act modifies provisions relating to taxation.

This bill contains an emergency clause in section 137.115.

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
State Tax Commission
Department of Social Services
Missouri Department of Transportation
Department of Commerce and Insurance
Department of Public Safety – Highway Patrol
Office of Administration
Office of the State Auditor
Joint Committee on Administrative Rules
Office of the Secretary of State
County Employees' Retirement Fund (CERF)

Newton County Health Department
Howell County Assessor
Lincoln County Assessor
Ste Genevieve County Assessor
Adair County SB40 Board
St Louis City SB40 Board

Julie Morff
Director
May 2, 2023

Ross Strope
Assistant Director
May 2, 2023