COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0457S.03C
Bill No.: SCS for SB 133
Subject: Taxation and Revenue - Income
Type: Original
Date: February 21, 2023

Bill Summary: This proposal creates an income tax deduction for unborn children.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue	$0	Could exceed ($8,328,848 to $12,450,358)	Could exceed ($8,131,178 to $12,166,824)
Total Estimated Net Effect on General Revenue	$0	**Could exceed ($8,328,848 to $12,450,358)**	**Could exceed ($8,131,178 to $12,166,824)**

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

Numbers within parentheses: () indicate costs or losses.

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
FTE Changes DOR	0 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**0 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
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Section 143.161 Unborn Child Income Tax Deduction

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 the state 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. Additionally if the women in 2024 gave birth to her third child, she would be eligible in that year for $7,200 ($2,400 * 3 kids) since the other two kids qualify for the dependency exemption even though it is zero.

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).

DOR notes since this proposal would allow a woman who gives birth in a year to receive a deduction for each child she has, DOR assumes the $8,243,021 is the low end of the deductions claimed. To calculate the high end of the range, DOR assumes that at least half of the women who gave birth would be having their second child. Therefore, claiming the credit for the one they gave birth to that year and the previous child they had. Therefore, DOR will assume 107,331 kids would qualify for the $2,400 deduction. Therefore, this would result in a loss of $12,364,531 to general revenue.

It should be noted that per SB 3 (2022) 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	High	Low	High	Low	High	Low	High
4.8%	($8,243,021)	($12,364,531)	($8,243,021)	($12,364,531)	($8,243,021)	($12,364,531)	($8,243,021)	($12,364,531)
4.7%			($8,071,291)	($12,106,937)	($8,071,291)	($12,106,937)	($8,071,291)	($12,106,937)
4.6%					($7,899,562)	($11,849,342)	($7,899,562)	($11,849,342)
4.5%							($7,727,832)	($11,591,748)

It should be noted that in 2024 and 2025 when a woman does not give birth she would not currently qualify for any deduction due to the Tax Cuts & Jobs Act. The Act is expiring unless renewed by Congress. Should it be renewed, then this would continue as it would in 2024 and 2025. Should it not be renewed, then in years when the woman does not give birth, she could qualify for the $1,200 deduction for her children. When she does give birth, she could choose to take the deduction for all kids at the $2,400 rate.

DOR notes 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 additionally 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 assumes the Department of Revenue is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the costs for computer upgrades related to this proposal. However, given the number of returns which might be affected Oversight will show the abovementioned 1 FTE for purposes of this fiscal note. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

However, **Oversight** notes the first tax year in which taxpayers would qualify for the new/expanded tax credit(s) is Tax Year 2024. Oversight notes individuals would not file their Tax Year 2024 tax returns until after January 1, 2025 (6 months after the beginning of Fiscal Year 2025). Therefore, Oversight will report DOR's administrative cost(s) beginning in Fiscal Year 2025, assuming DOR can hire and train such FTE(s) within the first six (6) months of Fiscal Year 2025; before Tax Year 2024 tax returns would begin to be filed claiming the new/expanded tax deductions.

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.

In addition, this proposal would grant the $2,400 deduction for each child that the taxpayer has in the year that she gives birth. For example, if a woman has three children and gives birth to a fourth, the year she gives birth she would qualify for a total deduction of $9,600 ($2,400 x 4 children).

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. Based on fertility and tax data, B&P assumes that up to half of all women have one other dependent at the time of birth. Therefore, B&P estimates that the total number of deductions each year could range between 72,468 and 108,703.

Therefore, B&P estimates that this proposal could exempt approximately $173,924,160 (72,468 x $2,400) to $260,886,240 in income (108,703 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 2: Estimated Revenue Loss by Fiscal Year

	Tax Year (Fiscal Year)							
Tax Rate	2024 (FY25)		2025 (FY26)		2026 (FY27)		2027 (FY28)	
	Low	High	Low	High	Low	High	Low	High
4.95%	($8,609,246)	($12,913,869)	($8,609,246)	($12,913,869)	($8,609,246)	($12,913,869)	($8,609,246)	($12,913,869)
4.80%	($8,348,360)	($12,522,540)	($8,348,360)	($12,522,540)	($8,348,360)	($12,522,540)	($8,348,360)	($12,522,540)
4.70%			($8,174,436)	($12,261,653)	($8,174,436)	($12,261,653)	($8,174,436)	($12,261,653)
4.60%					($8,000,511)	($12,000,767)	($8,000,511)	($12,000,767)
4.50%							($7,826,587)	($11,739,881)

Therefore, B&P estimates that this provision could reduce TSR and GR by $8,609,246 to $12,913,869 (top tax rate 4.95%) or by $8,348,360 to $12,522,540 (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 to $11,739,881 annually.

Oversight notes this proposal 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 proposal 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 DOR's and B&P's estimates include data from their internal Income Tax Model. Oversight notes that it does not currently have the resources and/or access to state tax data to produce a thorough independent revenue estimate and is unable to verify the revenue estimates provided by B&P and DOR.

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

FISCAL IMPACT – State Government	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE			
Costs - DOR §143.161 p. (4)			
Personal Service	$0	($31,824)	($32,460)
Fringe Benefits	$0	($27,195)	($27,427)
Exp. & Equip.	$0	($26,808)	$0
Total Costs -	$0	($85,827)	($59,887)
FTE Change	0 FTE	1 FTE	1 FTE
Revenue Loss – Unborn Child Income Tax Deduction §143.161 – p. (4)	$0	Could exceed ($8,243,021 to $12,364,531)	Could exceed ($8,071,291 to $12,106,937)
ESTIMATED NET EFFECT ON GENERAL REVENUE	$0	**Could exceed ($8,328,848 to $12,450,358)**	**Could exceed ($8,131,178 to $12,166,824)**
Estimated Net FTE Change on General Revenue	0 FTE	1 FTE	1 FTE

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

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

Current law authorizes a taxpayer to claim a $1,200 exemption for each dependent for whom such taxpayer is entitled to a dependency exemption for federal tax purposes, provided such federal exemption is not equal to $0.

This act authorizes a taxpayer to claim a $2,400 exemption during the tax year in which a taxpayer gives birth to a child for which the taxpayer is entitled to a dependency exemption for federal tax purposes, regardless of whether the federal exemption is equal to $0.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration - Budget and Planning

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