

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4602S.03T
Bill No.: Truly Agreed To and Finally Passed SS for HB 1912
Subject: Tax Credits; Taxation and Revenue - Income; Corporations
Type: Original
Date: May 28, 2024

Bill Summary: This proposal modifies provisions relating to the taxation of pass-through entities.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on FTE	0	0	0

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

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

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 143.081 Non-Resident Credit

Officials from the **Department of Revenue (DOR)** assume this proposal modifies the language of the non-resident credit to allow nonresidents who do not pay tax in another state to claim the credit and adjusts the formula to calculate the credit. This is estimated to have minimal impact.

DOR, in further correspondence with Oversight via email, indicated that the Department has no way of knowing how many people would fall under this provision, but assumes it could exceed \$250,000.

Oversight notes DOR's response to identical language in the previous version, HB 1912, indicated there would be no additional impact. For purposes of this fiscal note, Oversight assumes the impact would not be material.

Section 143.436 SALT Parity Act

Officials from **DOR** state this proposal makes modifications to the SALT Parity Act. The majority of the changes are for clarification and clean up purposes. These changes are not expected to result in any additional impact from this proposal.

This proposal creates a procedure by which a partner who does not want to participate under this program can opt-out. This will require changes to DOR forms and computer programs. These changes will be done as part of DOR's year-end work with existing resources.

Oversight assumes the changes within this provision only deal with clean up language regarding who is eligible to file, the processes of filing, and opting out of the SALT requirements prior income tax filing. Oversight will utilize DOR's assumption that this provision will not create any additional fiscal impact to the state and. For purposes of this fiscal note, Oversight will reflect a zero fiscal impact.

Overall bill:

Officials from the **Office of Administration – Budget & Planning** assume this proposal will not impact: - TSR - The calculation under Article X, Section 18(e).

Officials from the **Department of Commerce and Insurance** assume the proposal will have no fiscal impact on their respective organization.

Rule Promulgation

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.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

TAXATION OF PASS-THROUGH ENTITIES

Currently, the law authorizes a taxpayer to claim a tax credit for income tax paid to another state on income that is also taxable in Missouri. This bill allows S Corporation shareholders to take a

similar tax credit for the shareholder's share of the S Corporation's income derived from sources in another state. Currently, the SALT Parity Act allows for an alternative method for the taxation of income in pass-through entities, as well as a tax credit against those sources of income tax. Current law also allows a taxpayer to reduce his or her tax burden through use of the Federal business income deduction. This bill alters such calculation by allowing the use of the Missouri State business income deduction instead.

This bill allows a member of an affected business entity to opt-out of the SALT Parity Act's taxation methods. If one or more members opt-out, the affected business shall subtract the opt-out members' allocable income and deduction items. If a member does not file a timely opt-out election for a tax year, that member shall not be precluded from timely filing an opt-out election for subsequent tax years.

If a nonresident member chooses to opt-out, that nonresident shall agree to:

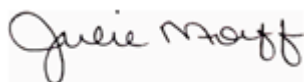
- (1) File a return based on Missouri nonresident adjusted gross income and to make timely payment of taxes with respect to income of the affected business entity; and
- (2) Be subject to personal jurisdiction in this State for purposes of tax collection with respect to the income of the affected business entity.

This bill applies the SALT Parity tax credit to a fiduciary of an estate or trust that is also a member of an affected business entity.

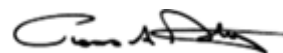
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration – Budget & Planning
Department of Commerce and Insurance
Joint Committee on Administrative Rules
Office of the Secretary of State



Julie Morff
Director
May 28, 2024



Ross Strope
Assistant Director
May 28, 2024