

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6002S.01I
 Bill No.: SB 1496
 Subject: Taxation and Revenue - Income; Taxation and Revenue - Sales and Use
 Type: Original
 Date: March 22, 2024

Bill Summary: This proposal modifies provisions relating to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue	(\$8,846,907,625)	(\$11,055,204,835)	(\$11,055,204,835)
Total Estimated Net Effect on General Revenue	(\$8,846,907,625)	(\$11,055,204,835)	(\$11,055,204,835)

* The estimated fiscal impact for fiscal year 2025 is lesser because FY 2025 is a partial year (5 months).

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
School District Trust Fund (0688)	\$352,164,274	\$845,194,258	\$845,194,258
State Road Fund (0320)	\$101,042,358	\$242,501,659	\$242,501,659
State Road Bond Fund (0319)	\$138,414,189	\$332,194,054	\$332,194,054
State Transportation Fund (0675)	\$2,768,284	\$6,643,881	\$6,643,881
Total Estimated Net Effect on <u>Other</u> State Funds	\$594,389,105 *	\$1,426,533,852	\$1,426,533,852

* The estimated fiscal impact for fiscal year 2025 is lesser because FY 2025 is a partial year (5 months).

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	\$34,603,547*	\$83,048,513	\$83,048,513

* The estimated fiscal impact for fiscal year 2025 is lesser because FY 2025 is a partial year (5 months).

FISCAL ANALYSIS

ASSUMPTION

Section 135.180 - Annual Payments to Taxpayers

Officials from the **Department of Revenue (DOR)** note this provision states that for all years starting January 1, 2025, a Missouri resident over the age of 18 that timely files a “return pursuant to this section” shall be entitled to a \$1,500 payment from the state. However, this newly created section of statute does not state what “return” is to be filed.

This proposal appears to want DOR to promulgate a rule to the content and form of the return required. The form would require proof from the taxpayer that they are a resident of the state and at least 18 years old. Taxpayers must file the form by April 15th to get the \$1,500 payment.

DOR notes there are 4,813,049 citizens in MO who would be allowed to receive this payment. This will result in a loss to general revenue of \$7,219,573,500 starting FY 2025. DOR will need to create a form at a cost of \$10,000.

Officials from the **Office of Administration – Budget & Planning (B&P)** assume this provision would grant individuals age 18 and over a payment of \$1,500 for filing an annual return by April 15th each year. B&P notes that this section instructs DOR to promulgate rules and craft the form that individuals will be required to submit. The state payments will begin for all years starting with 2025. Therefore, this provision will begin impacting revenues in FY25.

Based on data published by the U.S. Census Bureau, there are approximately 4,813,049 individuals aged 18 and older living in Missouri. Assuming that all qualifying individuals file the required annual form, B&P estimates that the state will pay out \$7,219,573,500 each year, starting with FY25.

Oversight will note DOR and B&P estimated the fiscal impact to general revenue beginning in FY 2025.

Section 143.011 - Elimination of Individual Income Tax

Officials from the **Department of Revenue (DOR)** note this provision eliminates the individual income tax for all tax years beginning on or after January 1, 2025. DOR used its internal confidential individual income tax computer system to determine the full tax year impact. This will result in a loss to general revenue of \$8,741,714,300 annually.

DOR when converting from tax year to fiscal year uses a 42%/58% split. Therefore, DOR will show a loss to general revenue of \$3,671,520,006 in FY 2025.

This will result in the department making changes to the department's internal tax computer systems. It is estimated to cost \$1,785. DOR notes that their processing staff handles more than just the individual income tax returns. DOR assumes that once all the income tax returns are stopped, staff will be reallocated to open positions in the Department.

Officials from the **Office of Administration – Budget & Planning (B&P)** assume this provision would eliminate the individual income tax for all tax years beginning with tax year 2025.

This provision would take effect January 1, 2025; therefore, individuals will adjust their withholdings and declarations during FY25. 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 \$3,671,520,006 in FY25. Once fully implemented (FY26), this proposal will reduce TSR and GR by \$8,741,714,300 annually.

Oversight will note DOR & B&P estimated fiscal impact to general revenue beginning in FY 2025.

Section 144.014 - Food Sales Tax Rate Increase

Officials from the **Department of Revenue (DOR)** note in Section 144.020 items that are sold are subject to state and local sales and use tax. The state sales tax is 4.225%. That sales tax is broken down as:

General Revenue	3%
School District	1%
Conservation Commission	.125%
Parks, Soil & Water Funds	.1%

In 1997, Section 144.014 was adopted, and it exempted the collection of the 3% general revenue portion of the state sales tax on food products identified by the SNAP program, while leaving the remaining 1.225% state sales tax in place. Additionally, food items not identified under the SNAP program (like food in restaurants) retained the 4.225% general state sales tax rate.

This proposal starting January 1, 2025, would change the tax rate on food to 6.225%. The tax would be:

School District	6%
Conservation Commission	.125%
Parks, Soil & Water Funds	.1%

Additionally, the local tax on food would remain. For fiscal note purposes, DOR uses a 6.32% local average for food tax. It should be noted that sales tax is distributed one month behind the

collection. Therefore, DOR will show the change as only 5 months in the first fiscal year (FY 2025).

The Department notes that in FY 2023, food reported \$16,903,885,153 in taxable sales. Therefore, the School District Trust Fund received \$169,038,852, the Conservation Commission Fund received \$21,129,856 and the Park, Soil & Water Funds received \$16,903,885 in state sales tax.

This proposal will only change the amount the school districts receive from 1% to 6% resulting in an increase of **\$352,164,274** in FY 2025 and **\$845,194,258** in FY 2026 and all future fiscal years.

This will result in the department making changes to the department's internal tax computer systems. It is estimated to cost \$1,785.

Officials from the **Office of Administration – Budget & Planning (B&P)** assume this provision would increase the state sales tax on food from 1.225% to 6.225% beginning January 1, 2025. The additional 5% sales tax shall be deposited into the School District Trust Fund.

Based on FY23 sales tax collections, B&P estimates that in FY23 there were \$16,903,885,153 in taxable food sales. Therefore, B&P estimates that this provision could increase revenues to the School District Trust Fund by **\$845,194,258** annually once fully implemented.

Oversight will note DOR & B&P estimated fiscal impact to general revenue beginning in FY 2025.

Section 144.020- Statewide Sales Tax Rate Increase

Officials from the **Department of Revenue (DOR)** note in Section 144.020 items that are sold are subject to state and local sales and use tax. The tax rate is currently 4% with 3% going to general revenue and 1% going to school districts. Starting January 1, 2025, this proposal changes the rate from 4% to 9%. Therefore, 8% will go to general revenue and 1% will go to school districts.

DOR notes that in tax year 2022, taxable sales were \$98,121,659,305 for all items that are not motor vehicles and \$13,287,762,152 for motor vehicles. The motor vehicle portion of the tax is split 50% to the State Road Bond Fund and 50% to the Highway Use Funds.

Increasing the general revenue tax to 8% will result in an additional **\$4,906,082,965** annually to general revenue. Increasing the general revenue tax on motor vehicles will result in the following:

	Annually
State Road Bond Fund	\$332,194,053.81
State Road Fund	\$242,501,659.28
State Transportation Fund	\$6,643,881.08
Fuel Local Deposit (FLOYD)	\$83,048,513.45

Given that sales tax is remitted one month behind collection this will result in an increase of 5 months in FY 2025 for each of these funds. This will result in the department making changes to the department’s internal tax computer systems. It is estimated to cost \$1,785.

Oversight notes the following total taxable sales according to [DOR’s Public Reports](#):

FY 2023 \$79,825,714,509
 FY 2022 \$73,229,759,654

Upon further inquiry, **DOR** indicated the \$98 B (in taxable sales) is based on the actual general revenue sales tax collected and dividing it by the 3% GR tax rate. Since the problem with the food tax was found, the bureau is supposed to be going through all the reports on DOR’s website and making sure all info is accurate.

For purposes of this fiscal note, **Oversight** will adopt DOR’s estimate of \$98 B in taxable sales. However, if this assumption is incorrect, this could alter the fiscal impact as presented in this fiscal note.

Officials from the **Office of Administration – Budget & Planning (B&P)** assume this provision would increase the state sales tax rate from 4.225% to 9.225%. B&P notes that the 5% general tax on tangible goods will be deposited into the state General Revenue (GR) fund. However, the 5% general tax on motor vehicles, trailers, boats, and outboard motors will be deposited into multiple road related funds.

Tangible Personal Property Sales Tax – 5% General Rate

In FY23, GR sales tax collections were \$2,943,649,779. Therefore, B&P estimates that an additional 5% sales tax rate could generate increase GR revenues of \$4,906,082,965 annually once fully implemented.

Motor Vehicle Sales Tax – 5% General Rate

B&P notes that the 3% tax on motor vehicles is deposited into the State Road Bond Fund (50%); the State Road Fund (36.5%); the State Transportation Fund (1%); and the Fuel Local Deposit Fund (FLOYD)(12.5%) which is then distributed to local jurisdictions.

In FY23, the state 3% MV sales tax collections were \$398,632,865. Therefore, B&P estimates that an additional 5% sales tax rate could generate increase MV sales tax revenues of \$664,388,108 annually once fully implemented.

Table 1: Estimated Impact by Fiscal Year

<u>State Funds</u>	<u>FY 2025</u>	<u>FY 2026+</u>
General Revenue	\$2,044,201,235	\$4,906,082,965
State Road Bond Fund	\$138,414,189	\$332,194,054
State Road Fund	\$101,042,358	\$242,501,659
State Transportation Fund	\$2,768,284	\$6,643,881
Total State Impact	\$2,286,426,066	\$5,487,422,559
 <u>Local Funds</u>		
FLOYD	\$34,603,547	\$83,048,513

Responses regarding the proposed legislation as a whole

B&P estimates that this proposal could reduce GR by \$8,846,892,271. Once fully implemented, this proposal could reduce GR by \$11,055,204,835 annually. Table 2 shows the impact to state and local funds.

Table 2: Summary of State and Local Impacts

<u>State Funds</u>	<u>FY 2025</u>	<u>FY 2026+</u>
General Revenue		
Individual Income Tax	(\$3,671,520,006)	(\$8,741,714,300)
Tax Return Payments	(\$7,219,573,500)	(\$7,219,573,500)
Sales Tax Increase	\$2,044,201,235	\$4,906,082,965
Net General Revenue	(\$8,846,892,271)	(\$11,055,204,835)
Education (SDTF)	\$352,164,274	\$845,194,258
State Road Bond Fund	\$138,414,189	\$332,194,054
State Road Fund	\$101,042,358	\$242,501,659
State Transportation Fund	\$2,768,284	\$6,643,881
Total State Impact	(\$8,252,503,166)	(\$9,628,670,983)
<u>Local Funds</u>		
FLOYD	\$34,603,547	\$83,048,513

Oversight will reflect DOR’s administrative cost(s) at (\$15,355) (creation of payment form \$10,000 + individual income tax computer changes \$1,785 + sales tax computer changes \$3,570) beginning in Fiscal Year 2025.

Oversight assumes that since the Conservation Commission and Park, Soil & Water funds are constitutionally set, this proposal will have no fiscal impact on these funds.

Officials from the City of O’Fallon assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for City of O’Fallon.

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 (5 Mo.)	FY 2026	FY 2027
GENERAL REVENUE			
<u>Costs - §§135.180-144.020 - DOR - Form and computer system upgrades p.7</u>	(\$15,355)	\$0	\$0
<u>Costs - §135.180 - Annual payment to taxpayers who file timely p.3</u>	Up to (\$7,219,573,500)	Up to (\$7,219,573,500)	Up to (\$7,219,573,500)
<u>Revenue Reduction - §143.011 - Elimination of individual income tax p.3-4</u>	(\$3,671,520,006)	(\$8,741,714,300)	(\$8,741,714,300)
<u>Revenue Gain - §144.020 - State sales tax rate increase p.7</u>	<u>\$2,044,201,236</u>	<u>\$4,906,082,965</u>	<u>\$4,906,082,965</u>

<u>FISCAL IMPACT – State Government</u>	FY 2025 (5 Mo.)	FY 2026	FY 2027
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$8,846,907,625)</u>	<u>(\$11,055,204,835)</u>	<u>(\$11,055,204,835)</u>
SCHOOL DISTRICT TRUST FUND			
<u>Revenue Gain</u> - §144.014 - Food sales tax rate increase 4-5	<u>\$352,164,274</u>	<u>\$845,194,258</u>	<u>\$845,194,258</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>\$352,164,274</u>	<u>\$845,194,258</u>	<u>\$845,194,258</u>
STATE ROAD FUND			
<u>Revenue Gain</u> - §144.020 - State sales tax rate increase p.7	<u>\$101,042,358</u>	<u>\$242,501,659</u>	<u>\$242,501,659</u>
ESTIMATED NET EFFECT ON STATE ROAD FUND	<u>\$101,042,358</u>	<u>\$242,501,659</u>	<u>\$242,501,659</u>
STATE ROAD BOND FUND			
<u>Revenue Gain</u> - §144.020 - State sales tax rate increase p.7	<u>\$138,414,189</u>	<u>\$332,194,054</u>	<u>\$332,194,054</u>
ESTIMATED NET EFFECT ON STATE ROAD BOND FUND	<u>\$138,414,189</u>	<u>\$332,194,054</u>	<u>\$332,194,054</u>
STATE TRANSPORTATION FUND			
<u>Revenue Gain</u> - §144.020 - State sales tax rate increase p.7	<u>\$2,768,284</u>	<u>\$6,643,881</u>	<u>\$6,643,881</u>

<u>FISCAL IMPACT – State Government</u>	FY 2025 (5 Mo.)	FY 2026	FY 2027
ESTIMATED NET EFFECT ON STATE TRANSPORTATION FUND	<u>\$2,768,284</u>	<u>\$6,643,881</u>	<u>\$6,643,881</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (5 Mo.)	FY 2026	FY 2027
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue Gain</u> - §144.020 - State sales tax rate increase (FLOYD) p.7	<u>\$34,603,547</u>	<u>\$83,048,513</u>	<u>\$83,048,513</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$34,603,547</u>	<u>\$83,048,513</u>	<u>\$83,048,513</u>

FISCAL IMPACT – Small Business

Most small businesses’ taxation would be impacted by this proposal.

FISCAL DESCRIPTION

ANNUAL PAYMENTS TO TAXPAYERS

For all years beginning on or after January 1, 2025, this act provides that any taxpayer, as defined in the act, that timely files a return as provided in the act shall be entitled to a payment from the state in amount equal to \$1,500. Returns shall be filed by April 15 of each year in order to be eligible for such payment. (Section 135.180)

INCOME TAX

Current law imposes an income tax rate of 4.95%, with additional potential reductions to a rate of 4.5%. For all tax years beginning on or after January 1, 2025, this act provides that no tax shall be imposed upon Missouri taxable income. (Section 143.011)

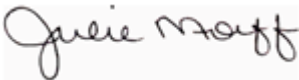
SALES TAX

Current law imposes a statewide sales tax rate of 4%, with retail sales of food taxed at a rate of 1%. For all years beginning on or after January 1, 2025, this act increases such rates to 9% and 6%, respectively. (Sections 144.014 and 144.020)

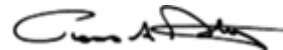
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of the Secretary of State
Joint Committee on Administrative Rules
City of O'Fallon
Joint Committee on Administrative Rules
Office of the Secretary of State



Julie Morff
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March 22, 2024



Ross Strope
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March 22, 2024