

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2365-01
Bill No.: HB 1133
Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Department of Revenue
Type: Original
Date: April 19, 2019

Bill Summary: This proposal modifies the state income tax brackets.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	Unknown to (Unknown) or (\$6,830,000,000) or (\$7,140,000,000)	Unknown to (Unknown) or (\$6,830,000,000) or (\$7,140,000,000)	Unknown to (Unknown) or (\$6,830,000,000) or (\$7,140,000,000)
Total Estimated Net Effect on General Revenue	Unknown to (Unknown) or (\$6,830,000,000) or (\$7,140,000,000)	Unknown to (Unknown) or (\$6,830,000,000) or (\$7,140,000,000)	Unknown to (Unknown) or (\$6,830,000,000) or (\$7,140,000,000)

*** Oversight assumes a positive unknown to negative unknown for revenue estimates until we are able to estimate revenue or verify the data and models provided. Oversight will also reflect B&P's revenue estimates for the changes to the tax rates.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on FTE	0	0	0

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal would replace the current individual income tax brackets and rates with two brackets and a tax rate formula.

B&P notes that the proposal is unclear as to whether taxable income greater than \$9,000 would be taxed using both formulas (one for the income up to \$9,000 and the other for the income above \$9,000) or if individuals with taxable income below \$9,000 would be taxed with the first formula and individuals with taxable income above \$9,000 would be taxed using the second formula. Therefore, B&P has provided estimates for both options.

The proposal states that for Missouri taxable income of \$9,000 and under, the income shall be taxed at a rate of $(0.015 + (TI)(F)/476,190.5) * (TI)$. Missouri taxable income over \$9,000 shall be taxed at a rate of $((0.054 - 180.9)/(TI))/F * (TI)$. "TI" is the amount of taxable income and "F" is the number of filing periods.

B&P notes that individual income tax only has 1 filing period; therefore, "F" will always equal 1. B&P further notes that while individuals may make up to 4 declarations and/or up to 52 withholding payments per year, those payments are only a pre-payment of the final tax due amount for the entire tax year. They are not separate filing periods.

B&P further notes that taxable income is not defined as the amount of taxable income per filing period or an individual's total taxable income for the tax year. However, as noted above, because there is only one filing period the lack of definition did not impact B&P's estimates.

Option 1

For option 1, B&P assumes that all taxable income below \$9,000 would be taxed using the first listed formula: $(0.015 + (TI)(F)/476,190.5) * (TI)$. All taxable income above \$9,000 would be taxed using the second listed formula: $((0.054 - 180.9)/(TI))/F * (TI)$. Individuals making over \$9,000 would be taxed at both rates: $(0.015 + (\$9,000)(F)/476,190.5) * (\$9,000) + ((0.054 - 180.9)/(TI - \$9,000))/F * (TI - \$9,000)$.

B&P notes that this option would yield a tax due amount of up to \$170.10 for all taxable income \$9,000 and under and a negative tax due amount of (\$180.85) for all taxable income above \$9,000, for a net impact of (\$10.75) in tax due for all individuals with taxable income above \$9,000. For the purpose of this fiscal note, B&P assumes that the negative tax balance would have to be refunded to qualifying taxpayers.

ASSUMPTION (continued)

Using 2016 tax year data, the most recent complete year available, B&P estimates that under this proposal total income tax collections for the state would be \$11.1 million. B&P notes that the FY 2020 CRE has net individual income tax collections of \$6.84 billion. Therefore, B&P estimates that this proposal would reduce Total State Revenue and General Revenue by \$6.83 billion (\$11.1 million - \$6.84 billion).

Option 2

For option 2, B&P assumes that all individuals with a taxable income below \$9,000 would be taxed using the first listed formula: $(0.015 + (TI)(F)/476,190.5) * (TI)$. All individuals with a taxable income above \$9,000 would be taxed using the second listed formula: $((0.054 - 180.9)/(TI))/F * (TI)$.

B&P notes that this option would yield a tax due amount of up to \$170.10 for all individuals with a taxable income \$9,000 and under and a negative tax due amount of (\$180.85) for all individuals with a taxable income above \$9,000. For the purpose of this fiscal note, B&P assumes that the negative tax balance would have to be refunded to qualifying taxpayers.

Using 2016 tax year data, the most recent complete year available, B&P estimates that under this proposal total income tax collections for the state would be negative (\$299.9 million). B&P notes that the FY 2020 CRE has net individual income tax collections of \$6.84 billion. Therefore, B&P estimates that this proposal would reduce TSR and GR by \$7.14 billion (negative \$299.9 million - \$6.84 billion).

Summary

B&P notes that this proposal would apply to tax year 2019, but become effective August 28, 2019 which would only allow individuals to adjust withholdings for four months and declarations once before the end of tax year 2019. In addition, August 28th is after the beginning of FY 2020. Therefore, B&P will reflect the full impact of the rate change for tax year 2019 in FY 2020.

Therefore, B&P estimates that this proposal would reduce Total State Revenue and General Revenue by either \$6.83 billion or \$7.14 billion beginning in FY 2020, depending on how the brackets were applied to an individual's taxable income.

Oversight will use the estimate provided by B&P in the fiscal note.

ASSUMPTION (continued)

Officials at the **Department of Revenue (DOR)** assume this proposal would establish two income tax rates, one for under \$9,000 and one for over \$9,000. The tax rate is determined by a mathematical formula based on taxable income and filing periods.

The Department was unable to determine the impact of the first equation (\$9,000 and below) due to "filing periods" not being defined properly within the proposed legislation.

As for the second equation, this would cause a negative tax rate. The Department assumes that every taxpayer whose income is greater than \$9,000 would no longer have a tax liability. In TY 2016 total tax liability for individuals with income over \$9,000 was over \$6.0 billion. The Department assumes this proposed legislation may decrease General Revenue by over \$6.0 billion per tax year.

Officials at the **University of Missouri Economic & Policy Analysis Research Center (EPARC)** assume this bill would change the Missouri individual income tax brackets. Current statutes are changing the income brackets, yearly, increasing them in accordance with the CPI. As well, the top individual income tax rate is decreasing at a rate perhaps reaching 5.1% as early as 2022 should revenue thresholds be met. This bill would repeal these sections of 143.011 and reduce the number of tax brackets to two, immediately. The following shows the Missouri individual income tax brackets under current statutes (2019) and then under the proposed legislation HB 1133:

Under Current Statutes (2019):

If the Missouri taxable income is:

Not over \$1,053 ...

Over \$1,053 but not over \$2,106 ...

Over \$2,106 but not over \$3,159 ...

Over \$3,159 but not over \$4,212 ...

Over \$4,212 but not over \$5,265 ...

Over \$5,265 but not over \$6,317 ...

Over \$6,317 but not over \$7,370 ...

Over \$7,370 but not over \$8,423 ...

Over \$8,423 ...

The tax is:

1 ½ % of the Missouri taxable income

\$16 plus 2 % of excess over \$1,053

\$37 plus 2 ½ % of excess over \$2,106

\$63 plus 3 % of excess over \$3,159

\$95 plus 3 ½ % of excess over \$4,212

\$132 plus 4 % of excess over \$5,265

\$174 plus 4 ½ % of excess over \$6,317

\$221 plus 5 % of excess over \$7,370

\$274 plus 5.4 % of excess over \$8,423

ASSUMPTION (continued)

HB 1133:

If the Missouri taxable income is:
 \$9,000 and under ...

The tax is:

$$\frac{0.015 + (TI)(F)}{476,190.5} (TI)$$

Over \$9,000 ...

$$\frac{0.054 - 180.9}{F} (TI)$$

where “TI” is the amount of taxable income, and “F” is the number of filing periods.

Conclusion: Unfortunately, the second equation for taxable incomes over \$9,000 yields only results that are negative, which is to say that no positive tax is calculated from it. Therefore, we are unable to estimate the impact this bill may have on Net General Revenue.

Oversight notes this proposal would change the individual income tax rates starting August 28, 2019. Oversight will show the impact of this proposal in FY 2020.

According to the Comprehensive Annual Financial Report for the Fiscal Year ending June 30, 2018:

Personal Income	Number of Filers	% of Total	Personal Income Tax Liability	% of Total
\$50,000 and under	3,177,244	70.55%	\$1,276,461,262	19.25%
\$50,000 - \$100,000	925,166	20.54%	\$1,839,049,644	27.73%
\$100,000 - \$250,000	311,748	6.92%	\$1,507,949,420	22.74%
\$250,000 - \$1,000,000	72,328	1.61%	\$1,010,062,837	15.23%
\$1,000,000 and over	17,027	.38%	\$998,411,943	15.05%
TOTAL	4,503,513	100%	\$6,631,935,106	100%

ASSUMPTION (continued)

Oversight notes that it **does not currently have the resources and/or access to state tax data** to produce an independent revenue estimate and is unable to verify the revenue estimates provided by B&P and DOR.

Oversight assumes a positive unknown to negative unknown for revenue estimates until we are able to estimate revenue or verify the data and models provided. Oversight will also reflect B&P's revenue estimates.

Oversight currently does not have the data or resources available to produce independent revenue projections, therefore Oversight uses the same assumptions for revenue growth as the FY 2020 Consensus Revenue Estimate (CRE) for revenue growth in all future years. The CRE assumes an increase in net general revenue collections of \$192.6 million for FY 2020.

Oversight notes pursuant to §143.011 - §143.022 (SBs 509 & 496 2014) if the previous fiscal year's net general revenue collections exceed the highest net general revenue collections of the three previous fiscal years by at least \$150 million, then there will be a reduction in the individual income tax rate by one-tenth of a percent and a reduction for individual income tax filers of 5% of "business income." These reductions will reduce net General Revenue collections by an estimated \$160.0 million annually. Oversight notes the proposed legislation may impact future net revenue collections and could impact future triggering of the rate reductions required under §143.011 - §143.022.

<u>FISCAL IMPACT - State</u> <u>Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
GENERAL REVENUE			
<u>Revenue Reduction - DOR</u>			
§143.011 individual income tax rate changed	(\$6,830,000,000) or <u>(\$7,140,000,000)</u>	(\$6,830,000,000) or <u>(\$7,140,000,000)</u>	(\$6,830,000,000) or <u>(\$7,140,000,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	(\$6,830,000,000) or <u>(\$7,140,000,000)</u>	(\$6,830,000,000) or <u>(\$7,140,000,000)</u>	(\$6,830,000,000) or <u>(\$7,140,000,000)</u>

*** Oversight assumes a positive unknown to negative unknown for revenue estimates until we are able to estimate revenue or verify the data and models provided. Oversight will also reflect B&P's revenue estimates for the changes to the tax rates.**

FISCAL IMPACT - Local Government

FY 2020
(10 Mo.)

FY 2021

FY 2022

\$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

This bill proposes Missouri have two income tax rates, one for under \$9,000 and one for over \$9,000. The tax rate is determined by a mathematical formula based on taxable income and filing periods.

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 Division of Budget and Planning
University of Missouri Economic & Policy Analysis Research Center



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April 19, 2019

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