COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4086-04
Bill No.: HCS for HB 1522
Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Department of Revenue; Higher Education; Health Care; Law Enforcement Officers and Agencies; Abortion
Type: Original
Date: March 16, 2020

Bill Summary: This proposal modifies provisions relating to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
General Revenue	$0	($65,988,752)	($5,469,815)	($6,192,487)
Total Estimated Net Effect on General Revenue	**$0**	**($65,988,752)**	**($5,469,815)**	**($6,192,487)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
Total Estimated Net Effect on <u>All</u> Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
Total Estimated Net Effect on FTE	**0**	**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 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
Local Government	**$0**	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Section 143.011 - Income Tax Rate Reduction

Officials from the **Office of Administration - Budget & Planning Division (B&P)** state this section provides that the top individual income tax rate shall be reduced by 0.17% beginning January 1, 2022. The top rate of tax may only be reduced if one or more institutions are subject to the endowment tax authorized in Section 146.200. For the purpose of this fiscal note, B&P assumes that the rate reductions currently scheduled to implement under SB 509 (2014) will occur in consecutive years from Tax Year 2021 through Tax Year 2023.

Using Tax Year 2017 data, the most recent complete tax year available, and accounting for the changes in individual income tax law created by SB 509 (2014), HB 2540 (2018) and the Tax Cuts and Jobs Act (2017), B&P estimates that this section will reduce Total State Revenue (TSR) TSR and General Revenue (GR) by $157.1 million during Calendar Year 2022. Once SB 509 (2014) has fully implemented, B&P estimates that provision will reduce TSR and GR by $158.4 million annually.

Table 1: Income Tax Reduction by Calendar Year

Tax Year	Top Tax Rate - Current Law*	Top Tax Rate – Proposal*	GR Impact
2021	5.30%	5.30%	$0
2022	5.20%	5.03%	($157,116,075)
2023	5.10%	4.93%	($158,362,062)

*Assumes rate reductions scheduled to occur under SB 509 (2014) are triggered each year

However, because this proposal would take effect January 1, 2022 individuals will adjust their withholdings and declarations during Fiscal Year 2022. 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 proposal will reduce TSR and GR by $66.0 million in Fiscal Year 2022. Once fully implemented in Fiscal Year 2024, and annually thereafter, this proposal will reduce TSR and GR by $158.4 million. Table 2 shows the estimated impact from this section by fiscal year.

ASSUMPTION (continued)

Table 2: Income Tax Reduction by Fiscal Year

Fiscal Year	GR Impact
2022	($65,988,752)
2023	($157,639,390)
2024	($158,362,062)

*Assumes rate reductions scheduled to occur under SB 509 (2014) are triggered each year

Oversight notes B&P has used a 42%/58% split when converting the estimated calendar year impact into a fiscal year impact. Oversight provides the calendar year/fiscal year split equations below:

Tax Year = January 1 - December 31		Equations for the Split	Fiscal Year = July 1 - June 30	
Calendar Year	Calendar Year Impact	Equation	Fiscal Year	Fiscal Year Impact
2021	$0	-	2021	$0
2022	($157,116,075)	($157,116,075) * 42%	2022	($65,988,752)
2023	($158,362,062)	($157,116,075) * 58% + ($158,362,062) * 42%	2023	($157,639,390)
-	-	($158,362,062) * 58% + (158,362,062) * 42%	2024	($158,362,062)

Officials from the **Missouri Department of Revenue (DOR)** state this proposal would allow for an individual income tax rate reduction starting with the 2022 calendar year.

DOR notes the current projected Individual Income Tax Rate is calculated with SB 509 (2014) and HB 2540 (2018) as follows:

Tax Year 2018 it was 5.9% (.1% reduction from SB 509)
Tax Year 2019 it was 5.4% (.1% reduction from SB 509 + .4% reduction from HB 2540)
Tax Year 2020 it is 5.4% (no reductions)
Tax Year 2021 will be 5.3% (.1% reduction from SB 509)
Tax Year 2022 will be 5.2% (.1% reduction from SB 509)
Tax Year 2023 will be 5.1% (last .1% reduction from SB 509)

DOR assumes that SB 509 triggers each year consecutively for fiscal note purposes.

This proposal would allow for a seventeen-hundredths of one percent (0.17%) reduction starting in Calendar Year 2022.

ASSUMPTION (continued)

DOR used its internal Income Tax Model that contains confidential taxpayer data to create 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 GR is projected as follows:

The GR impact would be a loss per calendar year of

Tax Year 2021	$0
Tax Year 2022	($156,530,933)
Tax Year 2023	($157,770,557)

This would translate into the following loss per fiscal year:

Fiscal Year 2021	$0
Fiscal Year 2022	($65,742,992)
Fiscal Year 2023	($157,051,575)
Fiscal Year 2024	($157,330,376)

Oversight notes DOR has used a 42%/58% split when converting the estimated calendar year impact into a fiscal year impact.

Oversight notes the individual income tax rate reduction proposed under this section may occur provided one or more institutions is subject to the endowment tax of institutions of higher education under Section 146.200 of this proposed legislation. Oversight notes the individual income tax rate reduction would not occur (or not occur until a later tax year) provided no institutions are subject to the endowment tax of institutions of higher education under Section 146.200. For purposes of this fiscal note, Oversight will assume this proposed legislation will not cause or result in the change of Washington University's practice(s) (see Section 146.200 below). Therefore, Oversight will assume the individual income tax rate reduction proposed will occur in Tax Year 2022.

For purposes of this fiscal note, **Oversight** will report the revenue reduction to GR, as it relates to the individual income tax rate reduction, as estimated by B&P.

ASSUMPTION (continued)

Section 146.200 - Endowment Tax

Officials from **B&P** state this section would create a 1.9% tax on qualifying endowments, beginning with Tax Year 2022. B&P notes that because the tax covers Tax Year 2022, final returns of impacted institutions would not be filed until 2023. Endowment is defined as a permanent fund held by an institution of higher education consisting of property, cash, cash equivalents, stocks, bonds, or any other marketable security; is used for specific purposes indicated by donors or related to the mission of the higher education institution; and the institution attempts to maintain and grow the principle of such fund while annually dispersing at least a portion of the investment earnings. Revenues generated by the endowment tax shall be deposited into GR.

A tax of 1.9% shall be levied on such endowment if an institution of higher education: is affiliated with or provides medical faculty to an abortion facility, offers specific medical residencies or fellowships in performing or inducing abortions, or supports abortion facilities in any manor, when the abortions are not necessary to save the life of the mother. B&P notes that Washington University (Wash U) is the only institution of higher education located within Missouri that would meet this standard. Based on Wash U's 2019 annual financial report, Wash U had an endowment of $8,008,925,000. Therefore, B&P estimates that a 1.9% endowment tax would increase GR and TSR by $152,169,575 annually beginning in Fiscal Year 2023.

Officials from the **DOR** state this proposal requires a qualifying institution of higher education to pay a tax on its endowment if it participates in, or supports abortion. DOR notes there are 6 universities in the state of Missouri that provide medical services; however only Washington University (Wash U) is known to support abortion services.

According to Wash U's website, under University Facts, as of June 30, 2019, their endowment's market value was $8,130,483,000.

This proposal requires a tax be assessed starting January 1, 2022 on a qualifying higher education institution's endowment of 1.9% annually. DOR notes that the collection of the tax would be in Fiscal Year 2023 when the tax returns are filed [after January 1, 2023]. Using Wash U's information this would result in a tax:

Fiscal Year 2021	$0
Fiscal Year 2022	$0
Fiscal Year 2023	$154,479,177 ($8,130,483,000 * 1.9%)

ASSUMPTION (continued)

Oversight notes this proposed legislation imposes a tax, beginning January 1, 2022, on the aggregate fair market value of the assets of endowment funds held by qualifying institutions equal to one and nine-tenths percent (1.9%). Oversight notes any impacted entity would not report their final tax until after January 1, 2023 (Fiscal Year 2023).

Oversight also notes the financial statements published by Washington University states, for Year Ending June 30, 2019, the Total Endowment Net Assets by Purpose is $8,008,925,000 and reports the University's endowment assets at June 30, 2019 to be $8,130,483,000. For purposes of this fiscal note, Oversight will show the smallest estimated increase to GR reported for this section provided by B&P, $152,169,575, beginning in Fiscal Year 2023.

Oversight notes the endowment tax proposed under this section may occur provided one or more institution(s): is affiliated with or provides medical faculty to an abortion facility, offers specific medical residencies or fellowships in performing or inducing abortions, or supports abortion facilities in any manner, when the abortions are not necessary to save the life of the mother. Oversight notes the endowment tax would not occur (or not occur until a later tax year) provided no institutions meet the aforementioned criteria. For purposes of this fiscal note, Oversight will assume this proposed legislation will not cause or result in the change of Washington University's practice(s). Therefore, Oversight will assume the endowment tax proposed will occur in Tax Year 2022 in which such tax returns would be filed after January 1, 2023; Fiscal Year 2023.

Officials from the **Joint Committee on Administrative Rules (JCAR)** assume this proposal is not anticipated to cause a fiscal impact beyond current appropriations.

Oversight assumes JCAR will be able to administer any rules resulting from this proposal with existing resources.

In response to the previous version of this proposed legislation, officials from the **Office of the Secretary of State (SOS)** state 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 the 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.

ASSUMPTION (continued)

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Oversight notes the **Missouri Department of Higher Education & Workforce Development**, and the **State Technical College of Missouri** have each stated the proposed legislation would not have a direct 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 organizations.

FISCAL IMPACT - State Government	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2024)
GENERAL REVENUE FUND				
Revenue Reduction - Section 143.011 - Income tax rate reduction of 0.17%	$0	($65,988,752)	($157,639,390)	($158,362,062)
Revenue Gain - Section 146.200 - Endowment tax p. 5	$0	$0	$152,169,575	$152,169,575
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**($65,988,752)**	**($5,469,815)**	**($6,192,487)**

FISCAL IMPACT - Local Government	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2024)
	$0	**$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

INDIVIDUAL INCOME TAX

For all tax years beginning on or after January 1, 2022, this bill reduces the top rate of tax by 0.17%. (Section 143.011)

HIGHER EDUCATION ENDOWMENT TAX

For all tax years beginning on or after January 1, 2022, this bill imposes a tax on the endowments of qualifying institutions of higher education at a rate of 1.9% of the aggregate fair market value of the assets of such endowments. The tax will apply to the endowments, as defined in the bill, of higher education institutions that: 1) Are affiliated with, or provide medical faculty to, any abortion facility, 2) Offer specific medical fellowships that offer training in performing or inducing abortions, or 3) Support in any manner any abortion facility where abortions are performed or induced when not necessary to save the life of the mother. All revenues generated by the endowment tax will be deposited into the General Revenue Fund. (Section 146.200)

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

Office of Administration - Budget & Planning Division
Missouri Department of Revenue
Joint Committee on Administrative Rules
State Technical College of Missouri
Missouri Department of Higher Education and Workforce Development
Missouri Secretary of State's Office

Julie Morff
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March 16, 2020

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