

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1648H.01I  
Bill No.: HB 688  
Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Salaries; Saint Louis City; Kansas City; Employees - Employers  
Type: Original  
Date: April 6, 2021

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Bill Summary: This proposal modifies provisions relating to the chapter 92 earnings tax.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
General Revenue*	Up to \$373,548	\$0 to Unknown	\$0 to Unknown
<b>Total Estimated Net Effect on General Revenue</b>	<b>Up to \$373,548</b>	<b>\$0 to Unknown</b>	<b>\$0 to Unknown</b>

\*A reduction in earnings tax collections (or larger earnings tax refunds), would reduce the amount of deductions used in calculating Missouri's income tax, thereby increasing state income tax collections.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.



<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

- ☐ 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.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
<b>Local Government*</b>	<b>\$0 or Could exceed (\$67,314,390)</b>	<b>\$0 or Could exceed (\$67,314,390)</b>	<b>\$0 or Could exceed (\$67,314,390)</b>

\*The fiscal impact depends upon the number of workers (taxpayers) telecommuting or working remotely in Kansas City and St. Louis. Work circumstances in future years may be very different than 2020/2021.



## **FISCAL ANALYSIS**

### **ASSUMPTION**

Officials from the **Office of Administration - Budget and Planning (B&P)** assume this proposal would exempt nonresident workers of Kansas City and St. Louis City from their 1% earnings tax, if the nonresidents worked remotely.

B&P notes that currently Kansas City is already exempting nonresident remote workers from the earnings tax for the days that nonresident employee worked remotely. Therefore, this proposal could reduce Kansas City earnings tax collections by exempting all work related income, not just days that the nonresident employee worked remotely.

B&P notes that St. Louis City is not exempting nonresident income for days that the nonresident worked remotely.

For the purpose of this fiscal note, B&P assumes that the majority of nonresident employees would qualify for this exemption during the 2020 tax year due to local and statewide closure orders related to COVID-19. B&P is unable to determine whether or the amount of nonresident employees that could qualify for this exemption beyond tax year 2020.

Based on data published by the U.S. Census Bureau 57.1% of St. Louis City residents are employed within the city. Based on data previously published by MERIC, approximately 5.8% of workers in St. Louis reside in Illinois. Therefore, B&P estimates that approximately 37.1% of St. Louis City workers reside within Missouri, but outside of St. Louis City.

Using data published by St. Louis City<sup>1</sup>, B&P determined that earnings tax collections for FY20 was \$156,910,000. Therefore, B&P estimates that of the \$156,910,000, approximately \$89,595,610 comes from St. Louis City residents who work within the city, \$9,100,780 comes from Illinois residents, and \$58,213,610 comes from Missouri residents outside of St. Louis City. B&P notes that city residents would still be liable for the tax because of their residency status. Therefore, B&P estimates that this provision could reduce St. Louis City earnings tax by \$67,314,390 (\$156,910,000 total earning tax - \$89,595,610 St. Louis City residents).

B&P notes that some taxpayers claim the amount of earnings tax paid to St. Louis City in their itemized deductions. Based on information provided by DOR, B&P determined that 12% of Missouri taxpayers itemize their deductions. B&P further notes that residents outside of Missouri are not liable for Missouri income tax on the days where they worked remotely.

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<sup>1</sup> <https://www.stlouis-mo.gov/government/departments/comptroller/documents/current-comprehensive-annual-financial-report.cfm>, FY20 CAFR – Table 9, page 213



Therefore, B&P estimates that \$6,917,558 (\$58,213,610 MO residents x 12%) in deductions would no longer be claimed on Missouri's individual income tax.

However, deductions do not impact revenues on a dollar for dollar bases, but rather in proportion to the top tax rate applied. B&P notes that the top income tax rate for tax year 2020 is 5.4%. Therefore, B&P estimates that this provision could increase state tax collections by \$373,548 for tax year 2020. B&P notes that this provision would not become effective until August 28, 2021, which is after tax year 2020 income tax returns are filed. B&P also notes that nonresident worker have up to one year to apply for an earnings tax refund from St. Louis City.

Therefore, B&P assumes that this provision may increase TSR and GR by \$373,548 in FY22. This provision may reduce St. Louis City earnings tax revenue by \$67,314,390 in FY22. This provision may have an unknown impact in future tax years.

**Oversight** notes the 12% itemized deduction percentage used by B&P is a rounded percentage. B&P stated to Oversight that the percentage is closer to 11.88% in the calculation of their numbers above. **Oversight** does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by the B&P.

Officials from **St. Louis City** note the Earnings Tax is the City's single largest source of revenue amounting to over a third of the general fund budget. Total receipts in FY2020 exceeded \$175M. The proposed legislation would eliminate the Earnings Tax on nonresidents of the City beginning December 31, 2021. While there is no definitive total of the portion of the Earnings Tax this would represent, a fair estimate would be that approximately half or more of these receipts would be jeopardized by the proposed legislation. A loss of revenue of this magnitude would be a devastating blow to the City's credit and fiscal condition, and would seriously impair the City's ability to provide basic City services. The following illustration shows the order of magnitude:

**1 /2 Earnings Tax receipts are:**

- Over half the total of the FY20 general fund expenditure of the Police Department at \$167.5M

**Or:**

- More than the entire Fire Department budget at \$64.3M

**Or about equivalent to the costs of these services:**

- Corrections and Juvenile Detention: \$46.6M
- Forestry Division trimming, weeding, and debris: \$7.9M
- Park Maintenance: \$8.5M
- Street Maintenance and Repair: \$7.1M
- Street and Alley Lighting: \$9.6M
- Building Code Compliance and Permits: \$7.9M



The potential loss of revenue in the range of \$90M annually would jeopardize the City's ability to maintain basic City services.

In addition to General Revenue, there would be a similar negative impact on all TIF developments which utilized a portion of the Earnings tax receipts in its financings, an amount which totaled \$5.5M in FY20.

**Oversight** does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by the B&P for the City of St. Louis.

Officials from the **City of Kansas City** assume the proposal may not be imposed on nonresidents who telecommute. While this conforms to the City's current allocation, it could result in a negative impact in the future should the City later determine to conform to a more expansive interpretation of the earnings tax statute.

**Oversight** notes according to Kansas City's 2020 Annual CAFR Report, the following is a ten year trend of approximately how much was collected in Earnings Taxes for Kansas City:

<u>Year</u>	<u>Total Revenue Base</u>	<u>Gross Earnings and Profits Tax</u>	<u>Less Redirection of Economic Activity to TIF Special Allocation Fund</u>	<u>Net Collection of Earnings Taxes</u>
2011	19,627,100,000	196,271,000	4,597,000	191,674,000
2012	20,672,700,000	206,727,000	23,760,000	182,967,000
2013	21,325,400,000	213,254,000	15,079,000	198,175,000
2014	21,946,600,000	219,466,000	18,283,000	201,183,000
2015	23,367,900,000	233,679,000	17,649,000	216,030,000
2016	23,689,100,000	236,891,000	13,067,000	223,824,000
2017	24,415,200,000	244,152,000	13,311,000	230,841,000
2018	25,891,400,000	258,914,000	17,109,000	241,805,000
2019	27,805,600,000	278,056,000	15,263,000	262,793,000
2020	25,838,200,000	258,382,000	14,468,000	243,914,000

Source: Kansas City 2020 CAFR Annual Report pgs 376 and 377

**Oversight** notes the City of Kansas City state the proposal conforms to their current allocation and B&P states that currently Kansas City is already exempting nonresident remote workers from the earnings tax for the days that nonresident employee worked remotely. Therefore, Oversight will reflect a \$0 or (Unknown) cost to Kansas City. Could exceed

Officials from the **Department of Labor and Industrial Relations**, the **Department of Revenue** and the **Office of the Secretary of State** each assume the proposal will have no 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 agencies.

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
<b>GENERAL REVENUE</b>			
<u>Savings</u> – calculation of deductions relating to earnings tax	<u>Up to \$373,548</u>	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>Up to \$373,548</u></b>	<b><u>\$0 to Unknown</u></b>	<b><u>\$0 to Unknown</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Revenue loss</u> – potential loss in revenue from eliminating the Earnings Tax on nonresidents of St. Louis City who telecommute or work remotely	\$0 or up to (\$67,314,390)	\$0 or up to (\$67,314,390)	\$0 or up to (\$67,314,390)
<u>Revenue loss</u> – potential loss in revenue from eliminating the Earnings Tax on nonresidents of Kansas City who telecommute or work remotely	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b>\$0 or Could exceed (\$67,314,390)</b>	<b>\$0 or Could exceed (\$67,314,390)</b>	<b>\$0 or Could exceed (\$67,314,390)</b>



FISCAL IMPACT – Small Business

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

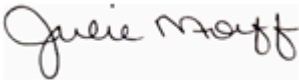
FISCAL DESCRIPTION

This bill prohibits any city, including any Constitutional Charter City, from imposing an earnings tax on compensation earned by a nonresident of the city for work that is performed through telecommuting or otherwise remotely.

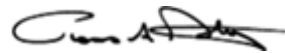
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

St. Louis City  
Office of Administration - Budget and Planning  
Department of Labor and Industrial Relations  
Department of Revenue  
Office of the Secretary of State  
Kansas City



Julie Morff  
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April 6, 2021



Ross Strope  
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April 6, 2021