

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1648H.03C
Bill No.: HCS for HB 688
Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Salaries; Saint Louis City; Kansas City; Employees - Employers
Type: Original
Date: April 19, 2021

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

FISCAL SUMMARY

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

*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.

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
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 2022	FY 2023	FY 2024
Local Government*	\$0 or Could exceed (\$67,314,390)	\$0 or Could exceed (\$67,314,390)	\$0 or Could exceed (\$67,314,390)

*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

§92.111 – Chapter 92 Earnings Tax

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, B&P assumes that this proposal will not impact earnings tax revenues in Kansas City.

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

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 City¹, 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. Therefore, B&P estimates that \$6,917,558 to \$7,999,009 [(\$58,213,610 MO residents x 12%) + (\$0 to \$9,100,780 Illinois residents x 12%)] in deductions would no longer be claimed on Missouri's individual income tax.

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

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 to \$431,946 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 workers have up to one year to apply for an earnings tax refund from St. Louis City.

B&P is unable to determine the number of working days that nonresidents worked remotely; therefore, the estimates above reflect the maximum amount of revenue impacts to St. Louis City and state general revenue.

Therefore, B&P assumes that this provision may increase TSR and GR by less than \$373,548 to \$431,946 in FY22. This provision may reduce St. Louis City earnings tax revenue by less than \$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.

In response to a previous version, officials from **St. Louis City** noted 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.

In response to a previous version, officials from the **City of Kansas City** assumed 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 states 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.

SEQ CHAPTER 1

§92.115 – Statutory Time Frames of Chapter 92 Earnings Tax

Officials from the **Office of Administration - Budget and Planning** assume this section would require the earnings tax reauthorization votes to include residents in surrounding counties. For the St. Louis City earnings tax votes, residents in St. Louis City, St. Louis County, St. Charles County, Jefferson County, and Franklin County shall vote on whether to reauthorize the earnings tax within St. Louis City. For the Kansas City earnings tax votes, residents in Cass County, Clay County, Jackson County, and Platte County shall vote on whether to reauthorize the earnings tax within Kansas City. This provision will not have a direct impact on TSR or the calculation under Article X, Section 18(e).

Oversight is unsure of how much the additional cost would be to include surrounding counties and will therefore reflect a \$0 to unknown cost for this section of the proposal.

Responses regarding the proposed legislation as a whole

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.

Officials from the **St. Louis County Board of Elections** and the **Jackson County Board of Elections** 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
GENERAL REVENUE			
<u>Savings</u> – calculation of deductions relating to earnings tax §92.111 p. 4	<u>Up to \$373,548</u>	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>Up to \$373,548</u>	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue loss</u> – potential loss in revenue from eliminating the Earnings Tax on nonresidents of St. Louis City who telecommute or work remotely §92.111 p. 4	\$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 §92.111 p. 5	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
<u>Cost</u> – increase costs to vote in surrounding counties §92.115 p. 6	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	\$0 or Could exceed (\$67,314,390)	\$0 or Could exceed (\$67,314,390)	\$0 or Could exceed (\$67,314,390)

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

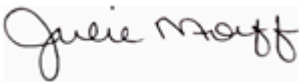
Currently, certain Constitutional Charter Cities may impose an earnings tax on compensation earned by a nonresident of the city for "work done or services performed or rendered in the city". This bill provides that for all tax returns filed on or after January 1, 2021, "work done or services performed or rendered in the city" will not include any work or services performed or rendered through telecommuting or otherwise performed or rendered remotely unless the location where such remote work or services were performed is located in the city (Section 92.111, RSMo).

Currently, certain Constitutional Charter Cities must have the earnings tax reauthorized once every five years by the qualified voters of such city. For the St. Louis City earnings tax, this bill changes the qualified voters for the reauthorization to individuals who currently reside in: St. Louis City; St. Louis County; St. Charles County; Jefferson County; and Franklin County. For the Kansas City earnings tax, this bill changes the qualified voters for the reauthorization to individuals who reside in the counties in which all or part of such city is located. These counties currently are: Jackson County; Clay County; Cass County; Plate County (Section 92.115).

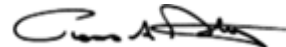
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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
St. Louis County Board of Elections
Jackson County Board of Elections



Julie Morff
Director
April 19, 2021



Ross Strobe
Assistant Director
April 19, 2021