

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 2233H.01I  
Bill No.: HB 1139  
Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Revenue,  
Department of  
Type: Original  
Date: March 9, 2021

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Bill Summary: This proposal would modify provisions relating to income tax.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2026)
General Revenue Fund	(\$398,279,699)	\$38,269,014	\$48,039,703	\$45,566,155
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$398,279,699)</b>	<b>\$38,269,014</b>	<b>\$48,039,703</b>	<b>\$45,566,155</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2026)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</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>Fully Implemented (FY 2026)</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</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>Fully Implemented (FY 2026)</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</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>Fully Implemented (FY 2026)</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## **FISCAL ANALYSIS**

### **ASSUMPTION**

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation will increase Total State Revenues (TSR) by \$39,042,930 once [SB 509 \(2014\)](#) has been fully implemented.

B&P states this proposed legislation will impact the calculation under Article X, Section 18(e).

### **Section(s) 143.011, 143.031, & 143.131 – Individual Income Tax**

Officials from **B&P** state **Section 143.011** would create a flat tax on all individual income over \$100. This provision will retain the 0.1% income tax reduction currently scheduled to occur under SB 509 (2014). Based on current revenue forecasts and average revenue growth, B&P estimates that revenues in Fiscal Year 2021, Fiscal Year 2024, and Fiscal Year 2025 will reach the SB 509 (2014) growth trigger requirement for reductions to the top rate of tax. Therefore, the top rate of tax will be reduced by 0.1% in Tax Year(s) 2022, 2025, and 2026 under SB 509 (2014).

**Subsection 143.011.5** would institute a flat tax rate of 5.4% beginning with Tax Year 2022, subject to the provisions of Section 143.021, RSMo and subsection 143.011.2. B&P notes that Section 143.021 states that there shall be **no** tax on taxable income less than \$100. Therefore, B&P assumes that this provision would create a flat tax on all taxable income of \$100 or more. B&P further notes that subsection 143.011.2 contains the top rate reductions created by SB 509 (2014). Table 1 shows the top tax rate and minimum taxable income for each tax year through the full implementation of SB 509 (2014) versus the proposed tax rate.

Table 1: Top Tax Rate by Tax Year

Tax Year	Current Law		Proposed	
	Top Tax Rate	Min. Income	Tax Rate	Min. Income
2020	5.4%	\$8,586	N/A	N/A
2021	5.4%	\$8,715	N/A	N/A
2022*	5.3%	\$8,889	5.3%	\$100
2023	5.3%	\$9,067	5.3%	\$100
2024	5.3%	\$9,248	5.3%	\$100
2025*	5.2%	\$9,433	5.2%	\$100
2026*	5.1%	\$9,622	5.1%	\$100

\*Assumes rate reduction is triggered under Section 143.011.2

B&P notes that this subsection states that the top rate of tax shall be 5.4% beginning with Calendar Year 2022, subject to the reduction in subsection 2. However, it is unclear whether the top tax rate would be 5.4% or 5.3% in Tax Year 2022 if the reduction in subsection 2 were triggered at the end of Fiscal Year 2021. The uncertainty arises because the reduction is calculated in the fall of 2021, but the rate change under subsection 5 would not occur until January. It is possible that the rate reduction could be considered to occur before the rate change – thus the top rate of tax under this provision would **remain** at 5.4% for Tax Year 2022. Under this scenario, the top rate of tax would be reduced to 5.2% rather than the 5.1% under current law once subsection 2 has been fully implemented. However, for the purpose of this fiscal note, B&P will assume that both the rate reduction (if triggered) under subsection 2 and the rate change in subsection 5 will occur together as both would not be effective until January 1, 2022.

**Section 143.031** removes the requirement that the taxable income of each spouse be in the same proportion as that spouse's Missouri adjusted gross income to their total combined Missouri adjusted gross income. B&P assumes that the changes in this section will not impact state revenues given the tax structure change created under Subsection 143.011.5.

**Section 143.131** would increase the Missouri standard deduction by \$3,650 for taxpayers filing single and \$7,300 for married filing joint taxpayers. B&P notes that this would not increase the standard deduction for head of household taxpayers. B&P also notes that this section would start on August 28, 2021 and will therefore impact Tax Year 2021 returns. B&P further notes that the standard deduction is not granted until individuals file their annual return in April of the year after the tax year (April 2022). Therefore, while this provision will be granted for Tax Year 2021, the impact will not occur to state revenues until Fiscal Year 2022.

**Income Tax Summary** - Using 2018 tax year data, the most current complete year available, and accounting for the changes in individual income tax law created by SB 509 (2014) and HB 2540 (2018), B&P estimates that Section 143.131 will reduce TSR and General Revenue (GR) by \$414,176,666 in Tax Year 2021. Sections 143.011 and 143.131 will increase TSR and GR by \$31,882,882 in Tax Year 2022. Table 2 shows the estimated impacts by tax year.

Table 2: Income Tax  
Changes by Calendar Year

Tax Year	GR Impact
2021	(\$414,176,666)
2022	\$31,882,882
2023	\$40,452,738
2024	\$51,976,587
2025	\$45,617,733
2026	\$39,042,930

However, as noted above even though the increased standard deduction would begin for Tax Year 2021, it would not impact state revenues until Fiscal Year 2022. In addition, individuals will adjust their withholdings and declarations during Fiscal Year 2022 for the tax structure change that begins in Tax Year 2022 under Subsection 143.011.5. Therefore, B&P estimates that these sections will reduce TSR and GR by \$400,785,856 in Fiscal Year 2022. Once SB 509 (2014) has been fully implemented, these sections will increase TSR and GR by \$39,042,930. Table 3 shows the estimated impacts per fiscal year.

Table 3: Income Tax Changes  
by Fiscal Year

Fiscal Year	GR Impact
2022	(\$400,785,856)
2023	\$35,482,222
2024	\$45,292,755
2025	\$49,305,868
2026	\$42,856,316
2027	\$39,042,930

Officials from the **Missouri Department of Revenue (DOR)** state **Section 143.011** eliminates the current individual income brackets after December 31, 2021. Starting January 1, 2022, this proposed legislation institutes an Individual Income Tax rate of 5.4% on all income subject to the provision of Section 143.021 and Subsection 143.011.2. Section 143.021 says that there shall be no tax on a taxable income of less than one hundred dollars (\$100). DOR used its internal Income Tax Model that contains confidential taxpayer data to calculate the fiscal impact which includes the impact from Section 143.131.

## Calendar Year

Calendar Year	Impact to GR
2021	(\$412,847,133)
2022	\$34,684,367
2023	\$43,219,240
2024	\$54,696,534
2025	\$48,336,382
2026	\$41,740,603

DOR uses a 42% in the first year and 58% in the second year to convert from tax year to fiscal year.

## Fiscal Year

Fiscal Year	Impact to GR
2021	\$0
2022	(\$398,279,699)
2023	\$38,269,014
2024	\$48,039,703
2025	\$52,025,270
2026	\$45,566,155

DOR states, currently, when a married couple files a combined tax return they are required to calculate the proportion of their income and tax between the two spouses in the same proportion as their earnings. This proposed legislation would remove the proportion requirement and require them to report the income as a single income and tax. This would simplify the tax return by removing the separate spouse columns, but would not be expected to change the amount of tax owed.

DOR states, currently, the Missouri standard deduction is the same amount allowed under the federal standard deduction. This proposed legislation increases the Missouri standard deduction to equal the federal standard deduction plus \$3,650. In Tax Year 2021 the federal standard deduction is scheduled to be \$12,550 for single filers. Under this proposed legislation the Missouri standard deduction would become \$16,200 for singles filers.

This proposed legislation allows the increase in the deduction for single filers and married filing joint filers. This proposed legislation **excludes** head of household filers from this increased deduction.

DOR notes that this provision becomes effective in the middle of a tax year instead of at the beginning; however, deductions are only granted once taxpayers file their annual return. Therefore, this section will increase the standard deduction starting in Tax Year 2021. While this section will impact Tax Year 2021 filings, it will not affect state revenues until Fiscal Year 2022 when the tax returns are amended.

DOR assumes there will be a number of taxpayers filing amended returns. It is unknown at this time, if additional resources would be necessary to handle the additional volume.

The impact of this section will be calculated with the other individual income tax changes occurring as a result of this entire proposed legislation (see impact shown above).

DOR anticipates the transition to a flat 5.4% tax rate would involve form and programming changes equal to \$2,000.

**Oversight** assumes the cost(s) associated with form and programming changes, as estimated by DOR, are minimal and can be absorbed with existing resources. Therefore, Oversight will not report the form and programming cost(s) of \$2,000, as reported by DOR.

**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 the Missouri Department of Revenue.

<u>FISCAL</u> <u>IMPACT – State</u> <u>Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2026)
<b>GENERAL REVENUE FUND</b>				
<u>Revenue Change</u> –Section(s) 143.011, 143.031 & 143.131 – Individual Income Tax Changes	<u>(\$398,279,699)</u>	<u>\$38,269,014</u>	<u>\$48,039,703</u>	<u>\$45,566,155</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$398,279,699)</u></b>	<b><u>\$38,269,014</u></b>	<b><u>\$48,039,703</u></b>	<b><u>\$45,566,155</u></b>

<u>FISCAL</u> <u>IMPACT –</u> <u>Local</u> <u>Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2026)
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

Currently, the top rate of income tax may be reduced over a period of years if certain triggers are met.

This bill replaces the current rates of tax on income based upon different levels of income of Missouri taxable income with a tax rate of 5.4% on all Missouri taxable income and has the current income tax cuts applied to this rate (Section 143.011).



Currently, the Missouri combined taxable income on a combined return must include all of the income and deductions of the husband and wife, and Missouri taxable income of each spouse is an amount that is the same proportion of their Missouri combined taxable income as the Missouri adjusted gross income of that spouse bears to their Missouri combined adjusted gross income.

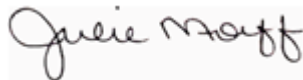
Beginning, January 1, 2022, the Missouri combined taxable income on a combined return must include all of the income and deductions of the husband and wife (Section 143.031).

This bill increases the Missouri standard deduction to the allowable federal standard deduction plus \$3650 if filing single or married and filing separately, or plus \$7300 if married and filing jointly (Section 143.131).

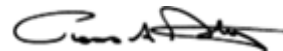
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

#### SOURCES OF INFORMATION

Office of Administration – Budget & Planning Division  
Missouri Department of Revenue



Julie Morff  
Director  
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Ross Strobe  
Assistant Director  
March 9, 2021