

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2233H.02C
Bill No.: HCS for HB 1139
Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Revenue,
Department of
Type: Original
Date: March 29, 2021

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2027)
General Revenue Fund	(\$3,467,716)	(\$4,657,127)	\$5,153,406	\$511,975
Total Estimated Net Effect on General Revenue	(\$3,467,716)	(\$4,657,127)	\$5,153,406	\$511,975

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2027)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2027)
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 2022	FY 2023	FY 2024	Fully Implemented (FY 2027)
Total Estimated Net Effect on FTE	0	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	Fully Implemented (FY 2027)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation will increase Total State Revenue (TSR) by \$511,975 once [SB 509 \(2014\)](#) has been fully implemented.

Furthermore, this proposed legislation will impact the calculation under Article X, Section 18(e).

Section 143.011 – Individual Income Tax Rate

Officials from **B&P** state this section 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 reduction(s) 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%, **or** the top tax rate as of January 1, 2022, 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

Officials from the **Missouri Department of Revenue (DOR)** state this section eliminates the current Individual Income Tax brackets after December 31, 2021.

Starting January 1, 2022, this proposed legislation institutes an Individual Income Tax of 5.4% **or** a lower amount if a lower amount is in effect on January 1, 2022. This tax is 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).

The Department notes that the current SB 509 (2014) is projected to reduce the tax rate on January 1, 2022 to 5.3%. Per this proposal the Department will assume under this proposal the tax rate will be 5.3% in tax year 2022.

DOR anticipates the transition to a flat 5.3% tax rate would involve form and programming costs 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

Section 143.031 – Tax Returns With Combined Filing Status

Officials from **B&P** state this section 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.

Officials from **DOR** state, currently, when a married couple files a combined tax return they are required to proportion their income and tax between the two (2) 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 starting January 1, 2022. This would simplify the tax return by removing the separate spouse columns, but is not expected to change the amount of tax owed.

Section 143.131 – Missouri Standard Deduction

Officials from **B&P** state this section would increase the Missouri standard deduction by \$4,000 for taxpayers filing single and \$8,000 for married filing joint taxpayers beginning with Tax Year 2022. B&P notes that this would **not** increase the standard deduction for head of household taxpayers.

Officials from **DOR** state, currently, the Missouri standard deduction is the same amount allowed under the federal standard deduction. Starting January 1, 2022, this proposed legislation increases the Missouri standard deduction to the federal standard deduction plus \$4,000 for single and married filing separate filers and \$8,000 for married filing joint.

This proposed legislation excludes head of household filers from this increased deduction.

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 \$16,550 for singles filers.

Oversight assumes increasing the standard deduction by \$4,000 for taxpayers filing as single taxpayers would result in a cost savings to such taxpayers equal to \$212 when using a tax rate of 5.3% ($\$4,000 * 5.3\%$). Thus, increasing the standard deduction by \$8,000 for taxpayers filing combined would result in a cost savings to such taxpayers equal to \$424 when using a tax rate of 5.3% ($\$8,000 * 5.3\%$)

Fiscal Impact of Proposed Legislation

Officials from **B&P** estimate, 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), this proposed legislation will decrease TSR and General Revenue (GR) by \$8,256,467 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
2022	(\$8,256,467)
2023	\$313,389
2024	\$11,837,238
2025	\$6,331,269
2026	\$511,975

However, individuals will adjust their withholdings and declarations during Fiscal Year 2022 for the tax structure change that begins in Tax Year 2022. Therefore, B&P estimates that this proposed legislation will reduce TSR and GR by \$3,467,716 in Fiscal Year 2022. Once SB 509 (2014) has been fully implemented, these sections will increase TSR and GR by \$511,975. Table 3 shows the estimated impacts per fiscal year.

Table 3: Income Tax
 Changes by Fiscal Year

Fiscal Year	GR Impact
2022	(\$3,467,716)
2023	(\$4,657,127)
2024	\$5,153,406
2025	\$9,524,731
2026	\$3,887,166
2027	\$511,975

Officials from **DOR** used its internal Income Tax Model that contains confidential taxpayer data to calculate the fiscal impact of this proposed legislation.

Tax Year	Loss to GR
2022	(\$5,214,518)
2023	\$3,320,355
2024	\$14,797,649
2025	\$9,305,901
2026	\$3,460,708

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

Fiscal Year	Loss to GR
2022	(\$2,190,098)
2023	(\$1,629,872)
2024	\$8,140,818
2025	\$12,491,115
2026	\$6,850,920
2027	\$3,460,708

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.

For purposes of this fiscal note, **Oversight** will report the revenue changes, as estimated by B&P.

<u>FISCAL</u> <u>IMPACT – State</u> <u>Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2027)
GENERAL REVENUE FUND				
<u>Revenue Change</u> – Section(s) 143.011, 143.031 & 143.131 – Individual Income Tax Changes	<u>(\$3,467,716)</u>	<u>(\$4,657,127)</u>	<u>\$5,153,406</u>	<u>\$511,975</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$3,467,716)</u>	<u>(\$4,657,127)</u>	<u>\$5,153,406</u>	<u>\$511,975</u>

<u>FISCAL</u> <u>IMPACT –</u> <u>Local</u> <u>Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2027)
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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% or the tax rate applicable as of January 1, 2022, 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.

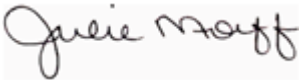
Beginning, January 1, 2022, the Missouri combined taxable income on a combined return must include all of the income and deductions of the husband and wife (Section 143.031).

This bill increases the Missouri standard deduction to the allowable federal standard deduction plus \$4,000 if filing single or married and filing separately, or plus \$8,000 if married and filing jointly (Section 143.131).

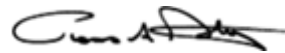
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

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



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March 29, 2021



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March 29, 2021