

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2521H.01I
Bill No.: HB 1294
Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Salaries; Saint Louis City; Kansas City; Employees - Employers
Type: Original
Date: March 9, 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*	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
Total Estimated Net Effect on General Revenue	\$0 to Unknown	\$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. At a current tax rate of 5.4%, if \$4.63 million of earnings tax refunds are issued, this may equate to a positive impact to the state of over \$250,000

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 \$211,000,000)	\$0 or (Could exceed \$211,000,000)	\$0 or (Could exceed \$211,000,000)

*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

Oversight notes that the **Office of Administration - Budget and Planning (BAP)** asked to be included in responding to this proposal. Oversight has requested a response from BAP regarding the effects on income tax revenue from the earnings tax elimination. Upon the receipt of this information, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note if needed.

Oversight notes that some taxpayers claim the amount of earnings tax paid to St. Louis City in their itemized deductions and have up to one year to apply for an earnings tax refund from St. Louis City. Oversight also notes that residents outside of Missouri would not be liable for Missouri income tax where they worked remotely. Deductions do not impact revenues on a dollar for dollar bases, but rather in proportion to the top tax rate applied. This would lead to the assumption that there may be an increase in total state revenues and general revenues, but Oversight is unclear on the amount. Therefore, until Oversight receives a response from BAP for further clarification, Oversight will reflect a \$0 to unknown positive fiscal impact to general revenue

Officials from **St. Louis City** state 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 who telecommute or work remotely. While there is no definitive total of the portion of the Earnings Tax this would represent, it is fair to assume that with approximately half or more of earnings tax receipts coming from non-residents, the subset of these who telecommute particularly in a year which encompassed a pandemic would be substantial. 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 of these Earnings tax receipts:

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 City of St. Louis.

Officials from **Kansas City** assume the proposal may not be imposed on nonresidents who telecommute. While this conforms with the City's current allocation, it could result in a negative impact in the future should the City later determine to conform with 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 if we use the same assumption of approximately half or more of earnings tax receipts coming from non-residents as used by the City of St. Louis using year 2020, then Kansas City could see a revenue decrease of \$121,957,000 ($\$243,914,000 * 50\%$) or more from this proposal. Therefore, Oversight will also reflect a potential revenue loss that could exceed this amount for this proposal.

Officials from the **Department of Revenue**, the **Department of Labor and Industrial Relations** 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
GENERAL REVENUE			
<u>Savings</u> – calculation of deductions relating to earnings tax	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0 to Unknown</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	(\$0 or Could exceed \$90,000,000)	(\$0 or Could exceed \$90,000,000)	(\$0 or Could exceed \$90,000,000)

Revenue loss – potential loss in revenue from eliminating the Earnings Tax on nonresidents of Kansas City who telecommute or work remotely	(\$0 or Could exceed \$121,000,000)	(\$0 or Could exceed \$121,000,000)	(\$0 or Could exceed \$121,000,000)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	(\$0 or Could exceed \$211,000,000)	(\$0 or Could exceed \$211,000,000)	(\$0 or Could exceed \$211,000,000)

FISCAL IMPACT – Small Business

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

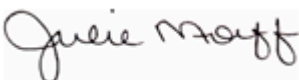
FISCAL DESCRIPTION

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; provided that, the nonresident telecommuted or otherwise worked remotely for at least 100 days during the tax year.

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
Department of Revenue
Office of the Secretary of State
Department of Labor and Industrial Relations
Kansas City



Julie Morff
Director
March 9, 2021



Ross Strobe
Assistant Director
March 9, 2021