COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5989H.01I
Bill No.: HB 13
Subject: Taxation and Revenue - General; Taxation and Revenue - Income
Type: Original
Date: September 27, 2022

Bill Summary: This proposal modifies provisions relating to income tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2032)
General Revenue Fund	$403,263,294	($696,475,480)	($692,551,768)	($1,105,644,067)
Total Estimated Net Effect on General Revenue	**$403,263,294**	**($696,475,480)**	**($692,551,768)**	**($1,105,644,067)**

*Oversight notes the state individual income tax rate (5.3% in CY 2022) is currently to be reduced in 0.10% annual increments (if certain triggers are met) until it reaches 4.8%. This proposal would change the tax rate to 4.8% starting January 1, 2023. Additionally, this proposal allows for eight additional 0.1% GR-growth-dependent reductions starting in CY 2024 until it reaches 4.0%. The impact for FY 2023 is positive because by repealing Sections 143.011.2, 143.011.3 & 143.011.4, the individual income tax rate for tax year 2022 (FY 2023) would revert to the (then) statutorily-stated 6%. The fiscal note reflects the assumptions that the current triggers would have been met each year (would have reduced the rate to 4.8% regardless of this bill) and that the new triggers in the bill will be met each year, occurring in CY 2024 – CY 2031.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2032)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**	**$0**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2032)
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 2023	FY 2024	FY 2025	Fully Implemented (FY 2032)
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 2023	FY 2024	FY 2025	Fully Implemented (FY 2032)
Local Government	**$0**	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Oversight notes that this proposal contains an emergency clause (Section B) that would make this proposal effective upon signing by the Governor for the designated statutory sections. Oversight notes Sections 143.021 and 143.131 have a stated start date of January 1, 2023. Therefore, the emergency clause will not impact these two sections.

Oversight further notes that the emergency clause will impact Section 143.011. By repealing sections 143.011.2, 143.011.3 and 143.011.4, the proposal will revert the top individual income tax rate for TY 2022 from the current rate of 5.3% to the then statutorily stated 6%.

Sections 143.011, 143.021, & 143.131 Individual Income Tax Rate & Deduction Changes (Effective with Emergency Clause)

Officials from the **Department of Revenue (DOR)** note in 2013 Missouri's individual income rate was 6% per the tax tables printed in statutes. In 2014, SB 509 then allowed for five reductions of the individual income tax rate based on certain revenue triggers (Section 143.011.2). The Department notes that currently two of those reductions have occurred (TY 2018 &TY 2019) and the third is forecasted to happen in tax year 2022, which will set the rate at 5.3%.

Additionally, in 2019 HB 2540 was added to statues that caused the individual income tax rate to be decreased by four-tenths of one percent (Section 143.011.3). Then during the 101st General Assembly regular session SB 153 & 97 was passed that would allow starting in the tax year 2024 another two reductions of SB 509. Therefore as of the filing of the fiscal note, the top individual income tax rate for tax year 2022 is 5.3%.

This proposal repeals Sections 143.011.2, 143.011.3 and 143.011.4 and leaves only the tax tables in place upon the passage of this proposal. By repealing these sections, the individual income tax rate for tax year 2022 would revert to the statutorily stated 6%. This would result in a tax increase for tax year 2022, which is FY 2023.

This proposal then adds language setting the individual income tax rate at 4.8% starting January 1, 2023. Additionally, in January 1, 2023 in Section 143.021 there would be no tax on taxable income of less than $1,000. Currently, only amounts under $100 are not taxable.

Additionally, starting in calendar year 2024, it will allow for eight more individual income tax reductions at one-tenths of a percent each. No more than one reduction in the individual income tax rate shall occur each year. These reductions can only occur if the amount of net general revenue collected in the previous fiscal year exceeds the highest amount of net general revenue collected in any of the three fiscal years prior to such fiscal year by at least one hundred fifty million dollars. This $150 million trigger is to be adjusted annually for inflation.

Additionally, in Section 143.131 this raises the Missouri standard deduction. Starting January 1, 2023, the Missouri standard deduction for every filing status, except married filing combined, shall be the allowable federal standard deduction plus two thousand dollars, and for the filing status of married filing combined, the Missouri standard deduction shall be the allowable federal standard deduction plus four thousand dollars.

For the simplicity of the fiscal note, the Department will show the future reductions occurring in consecutive years. Using the Department's internal Income Tax Model that contains confidential taxpayer data, DOR was able to estimate the following impact of these new changes beginning in tax year 2022.

Tax Year	Amount
2022	$696,689,973
2023	($698,587,331)
2024	($693,559,113)
2025	($691,160,672)
2026	($685,657,974)
2027	($685,070,667)
2028	($789,078,856)
2029	($892,228,348)
2030	($997,261,188)
2031	($1,105,644,067)

The Department uses a 42%/58% split to convert from the tax year to fiscal year and will do so for all fiscal years after 2023. However, given the changes to the tax year 2022 individual income rate so late in the tax year, DOR believes people will be unable to adjust their withholding to make up for the tax rate increasing. Therefore will result in higher remittances and lower refund requests during FY 2023.

Fiscal Year	Loss to GR
2023	$403,283,294
2024	($696,475,480)
2025	($692,551,768)
2026	($688,849,539)
2027	($685,411,305)
2028	($728,754,106)
2029	($832,401,642)
2030	($936,342,141)
2031	($1,042,781,997)
2032	($1,105,644,067)

The Department of Revenue will need to update their computer system, forms and website. These changes are estimated at $20,000.

Oversight will show the cost of system, forms, and website modifications as estimated by DOR as a one-time cost in FY 2023.

Officials from the **Office of Administration - Budget and Planning (B&P)** note Section B – would create an emergency clause for Section A. B&P notes that Sections 143.021 and 143.131 have an internal start date of January 1, 2023. Therefore, the emergency clause will not impact these two sections.

However, B&P notes the emergency clause will affect Section 143.011. B&P notes that this proposal would repeal all existing tax rate language and instead enact new language that does not begin until calendar year 2023. Therefore, only the tax table published in Section 143.011.1 would remain in place for tax year 2022. The tax table in Section 143.011.1 would revert the top tax rate back to 6.0%. B&P notes that the inflation adjusted brackets would remain, as the existing CPI adjustment language in Section 143.011.4 is not repealed.

Section 143.011 would reduce the top tax rate to 4.8% beginning with tax year 2023. This provision would allow eight GR growth dependent additional 0.1% reductions in the top rate, beginning with tax year 2024. Each additional reduction shall only occur if net general revenue grows by at least $150 million, adjusted for inflation, above the largest amount collected in the previous three fiscal years. B&P notes that the trigger is to be adjusted by the “percent increase in inflation” which is defined in Section 143.011.3.

Section 143.021 would eliminate the bottom individual income tax bracket. Section 143.131 would increase the standard deduction by $2,000 for individuals and $4,000 for married filing combined taxpayers.

B&P notes that under current law the top tax rate was 5.3% for tax year 2022 and will be 5.2% starting with tax year 2023. B&P notes that per SB 153 (2021) there will be a 0.1% reduction in the top rate for tax year 2024. Based on current revenue forecasts and average revenue growth, B&P estimates that revenues in FY24, FY25, and FY26 will reach the growth trigger requirement for reductions to the top rate of tax. Therefore, the top rate of tax is estimated to be reduced by 0.1% in tax years 2025, 2026, 2027 under SB 509 (2014) and SB 153 (2021). For the purpose of this fiscal note, B&P will assume that the rate reductions created under this proposal will trigger for each tax year from 2024 through 2031. However, B&P acknowledges that it is unlikely that the reductions will trigger in consecutive years. Table 1 shows the current versus proposed top rate of tax.

Table 1: Current versus Proposed Top Tax Rate

Tax Year	Current Law	Proposed
2022	5.30%	6.00%
2023	5.20%	4.80%
2024	5.10%	4.70%
2025	5.00%	4.60%
2026	4.90%	4.50%
2027	4.80%	4.40%
2028	4.80%	4.30%
2029	4.80%	4.20%
2030	4.80%	4.10%
2031	4.80%	4.00%

Using tax year 2019 data, the most recent complete tax year available, and accounting for the changes in individual income tax law created by SB 509 (2014) and SB 153 (2021), B&P estimates that this proposal may increase tax collections by $696.5M for tax year 2022 because of reverting back to a 6% top tax rate as noted above. Once this proposal fully implements, B&P estimates this provision could reduce tax collections by $1,103.3M annually, compared to revenues under SB 509 (2014) and SB 153 (2021) with a top rate 4.8%. Table 2 shows the estimated revenue impact by tax year.

Table 2: Estimated Impact by Tax Year

Tax Year	GR Impact
2022	$696,464,093
2023	($700,851,995)
2024	($696,295,838)
2025	($693,920,292)
2026	($688,399,096)
2027	($687,891,932)
2028	($791,995,329)
2029	($895,470,004)
2030	($1,000,876,823)
2031	($1,103,335,803)

B&P notes that this proposal would impact tax year 2022 near the end of the tax year and after the start of FY23. Therefore, B&P estimates that the impact from this proposal will occurring during FY23 annual tax return filing through higher remittances and lower refund requests.

In addition, individuals will adjust their withholdings and declarations during FY23 to reflect the tax changes for tax year 2023. Based on actual collections data, B&P estimates that 42% of individual income taxes are paid during fiscal year 1 and 58% are paid during fiscal year 2. Therefore, B&P estimates that this provision could increase TSR and GR by $402.1M in FY23. Once fully implemented, and annually thereafter, this proposal may reduce TSR and GR by $1,103.3M, compared to revenues under SB 509 (2014) and SB 153 (2021) with a top rate 4.8%. Table 3 shows the estimated impact by fiscal year.

Table 3: Estimated Impact by Fiscal Year

Fiscal Year	GR Impact
2023	$402,106,255
2024	($698,938,409)
2025	($695,298,109)
2026	($691,601,390)
2027	($688,186,087)
2028	($731,615,359)
2029	($835,454,693)
2030	($939,740,868)
2031	($1,043,909,595)
2032	($1,103,335,803)

Oversight used information provided by the IRS (2019 Data) and obtained individual, married filing jointly, and head of household population sizes for each return type as shown in the table below.

Return Type	All Returns	Under $1	$1 under $10,000	$10,000 under $25,000	$25,000 under $50,000	$50,000 under $75,000	$75,000 under $100,000	$100,000 under $200,000	$200,000 under $500,000	$500,000 under $1,000,000	$1,000,000 or more
Number of single returns	1,380,720	26,820	324,330	363,030	384,180	163,360	61,690	46,240	9,110	1,310	650
Number of joint returns	1,059,780	14,870	31,580	78,080	165,040	187,210	179,890	303,290	82,280	12,190	5,350
Number of head of househol	364,390	1,300	29,750	121,310	137,590	44,650	16,250	11,090	2,040	310	100
Total	**2,804,890**	**42,990**	**385,660**	**562,420**	**686,810**	**395,220**	**257,830**	**360,620**	**93,430**	**13,810**	**6,100**

Example of IRS data for 2019 filing.

Additionally, for the purpose of this fiscal note, **Oversight** estimated the new proposed income tax brackets, for TY 2023 as shown below, to calculate the GR loss in each income bracket provided by the IRS.

New proposed Tax Bracket (for purpose of this fiscal note)

1st Tax Bracket	$1,001	$2,106	2.00%
2nd Tax Bracket	$2,106	$3,159	2.50%
3rd Tax Bracket	$3,159	$4,212	3.00%
4th Tax Bracket	$4,212	$5,265	3.50%
5th Tax Bracket	$5,265	$6,318	4.00%
6th Tax Bracket	$6,318	$7,000	4.50%
7th Tax Bracket	$7,000		4.80%

Oversight estimated the tax liability under this proposal for each return type and compared it to the estimated tax liability under the current law as shown below:

Individual

Size of adjusted gross income	Individual Returns Population	Difference in tax liability at 5.2%	Total multiplied by population at 5.2%
Under$1	26,820	0	
$1under$10,000	324,330	0	
$10,000under$25,000	363,030	$ 94.77	$ 34,404,353.10
$25,000under$50,000	384,180	$ 98.59	$ 37,876,306.20
$50,000under$75,000	163,360	$ 165.31	$ 27,005,041.60
$75,000under$100,000	61,690	$ 265.65	$ 16,388,195.26
$100,000under$200,000	46,240	$ 455.64	$ 21,068,701.12
$200,000under$500,000	9,110	$ 1,006.68	$ 9,170,854.80
$500,000under$1,000,000	1,310	$ 2,566.31	$ 3,361,866.10
$1,000,000ormore	650	$ 13,059.00	$ 8,488,350.00
Total			**$ 157,763,668.18**

The difference in tax liability is a loss to the GR and benefit to the taxpayer.

Married filing combined

Size of adjusted gross income	Joint Returns Population	Difference in tax liability at 5.2%	Total multiplied by population at 5.2%
Under$1	14,870	0	
$1under$10,000	31,580	0	
$10,000under$25,000	78,080	$ -	$ -
$25,000under$50,000	165,040	$ 163.50	$ 26,984,040.00
$50,000under$75,000	187,210	$ 257.25	$ 48,160,146.92
$75,000under$100,000	179,890	$ 355.34	$ 63,922,472.38
$100,000under$200,000	303,290	$ 545.43	$ 165,423,464.70
$200,000under$500,000	82,280	$ 1,049.17	$ 86,325,707.60
$500,000under$1,000,000	12,190	$ 2,609.90	$ 31,814,681.00
$1,000,000ormore	5,350	$ 13,102.00	$ 70,095,700.00
Total			**$ 492,726,212.60**

The difference in tax liability is a loss to the GR and benefit to the taxpayer.

Head of Household

Size of adjusted gross income	Head of Household Returns Population	Difference in tax liability at 5.2%	Total multiplied by population at 5.2%
Under$1	1,300	0	
$1under$10,000	29,750	0	
$10,000under$25,000	121,310	$ -	$ -
$25,000under$50,000	137,590	$ 89.47	$ 12,310,177.30
$50,000under$75,000	44,650	$ 140.71	$ 6,282,701.50
$75,000under$100,000	16,250	$ 241.05	$ 3,917,127.50
$100,000under$200,000	11,090	$ 431.04	$ 4,780,211.42
$200,000under$500,000	2,040	1006.58	$ 2,053,423.20
$500,000under$1,000,000	310	2566	$ 795,460.00
$1,000,000ormore	100	$ 13,059.00	$ 1,305,900.00
Total			**$ 31,445,000.92**

The difference in tax liability is a loss to the GR and benefit to the taxpayer.

Oversight has summarized the total estimated loss of tax revenue by income level at the presumed rate of 5.2% in the table below.

Return Type	Difference in Tax Due
Individual	$ 157,763,668.18
Joint	$ 492,726,212.60
Head of Household	$ 31,445,000.92
Total	$ 681,934,881.70

Oversight estimates the reduction of the General Revenue Fund for the provisions of this proposal to total ($681,934,882) for TY 2023. Oversight notes that this estimate is presented in 2019 nominal amounts. Since 2019, the CPI has risen by 14.2% (to current date). Oversight adjusted the total amount to represent the impact in today's dollar amount of ($778,769,635) (rounded to the nearest dollar).

Oversight compared the estimate of ($778,769,635) to DOR and B&P's respective estimates for TY 2023 (($698,587,331.39) and ($700,851,995)). After conducting this analysis, **Oversight** assumes DOR and B&P's estimated impact for this proposal accurately represents the loss of the general revenue.

Oversight notes both DOR and B&P's estimates include data from DOR and B&P's internal Income Tax Model. Additionally, **Oversight** notes both DOR and B&P's estimates of revenue impact assume all scheduled rate reductions will occur.

Oversight notes that it does not currently have access to state tax data to produce a thorough independent revenue estimate and is unable to verify the revenue estimates provided by B&P and DOR. Therefore, for the purpose of this fiscal note, Oversight will note DOR's estimated impact for this proposal.

FISCAL IMPACT – State Government	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2032)
GENERAL REVENUE FUND				
Costs – DOR – system and form updates	($20,000)	$0	$0	$0
Revenue (Loss) - §143.011 - §143.131 Individual Income Tax p. 3-10	$403,283,294	($696,475,480)	($692,551,768)	($1,105,644,067)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$403,263,294**	**($696,475,480)**	**($692,551,768)**	**($1,105,644,067)**

FISCAL IMPACT – Local Government	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2032)
	$0	**$0**	**$0**	**$0**

FISCAL IMPACT – Small Business

Certain small businesses may pay less in income tax as a result of this proposal.

FISCAL DESCRIPTION

RESIDENT INDIVIDUAL INCOME TAXES (Section 143.011, RSMo)

Currently, reductions to the top rate of income tax are allowed to reach an eventual rate of 4.8% over a period of years, contingent on meeting certain net general revenue collection triggers. This bill repeals all such scheduled reductions and reduces the top rate of income tax to 4.8% beginning in the 2023 calendar year. Beginning with the 2024 calendar year, the top rate of tax may be reduced by .1%. No more than one reduction may occur per calendar year with no more than eight reductions in total. Reductions in the rate of tax will take effect on January first of a calendar year and such reduced rates shall continue in effect until the next reduction occurs. A reduction in the rate of tax will occur only if the amount of net general revenue collected in the previous fiscal year exceeds the highest amount of net general revenue collected in any of the three fiscal years prior to such fiscal year by at least $150 million. The $150 million threshold will be adjusted for inflation as specified in the bill.

TAXABLE INCOME (Section 143.021)

Currently, the first $100 of a taxpayer's income from taxation is exempt. For all tax years beginning on or after January 1, 2023, this bill exempts the first $1,000 of income from taxation.

MISSOURI STANDARD DEDUCTION (Section 143.131)

Beginning January 1, 2023, this bill increases the Missouri standard deduction for every filing status, except married filing combined, to the allowable federal standard deduction plus an additional $2000, and for the filing status of married filing combined, the allowable federal standard deduction plus an additional $4,000.

This bill has an emergency clause.

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

Department of Revenue
Office of Administration - Budget and Planning

Julie Morff
Director
September 27, 2022

Ross Strope
Assistant Director
September 27, 2022

KLP:LR:OD