

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5993H.01I
Bill No.: HB 14
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	(\$197,854,833)	(\$473,134,831)	(\$480,908,373)	(\$945,830,607)
Total Estimated Net Effect on General Revenue	(\$197,854,833)	(\$473,134,831)	(\$480,908,373)	(\$945,830,607)

***Oversight** notes the state individual income tax rate (5.3% in CY 2022) is 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 a flat rate of 4.80% starting January 1, 2023. Additionally, this proposal allows for an additional eight 0.1% GR-growth-dependent reductions that could occur as early as CY 2024 (assuming the GR dependent trigger is met) until it reaches 4.0%. The impact for FY 2023 is smaller because it reflects a partial year. 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 additional triggers in the bill will be met each year, occurring in CY 2024 – CY 2031. Oversight has requested additional information from state agencies regarding their fiscal impact estimates.

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

Sections 143.011, 143.031, & 143.131 Individual Income Tax

Officials from the **Department of Revenue (DOR)** note this proposal intends to repeal Section 143.011 that was enacted with the passage of SB 153 (2021) and was to go into effect on January 1, 2023. This proposal also amends the current Section 143.011. This proposal would make changes to the existing Section 143.011

This proposal in Section 143.011 would replace the current tax bracket system with a flat 4.8% tax beginning with tax year 2023. In addition, it allows the income tax rate to be reduced another eight times by 0.1% until the individual income tax rate reaches 4.0%. Each 0.1% reduction will only occur when net general revenue collections in a fiscal year exceed the net general revenue collected in the highest of the previous three fiscal years by at least \$150 million. This proposal allows the \$150 million threshold to be inflation adjusted.

Section 143.031 currently allows taxpayers who file a combined return to separate their income on the return. This proposal removes the separation requirement and requires they report their income combined.

Additionally, in Section 143.131 this proposal would increase the standard deduction \$3,500 over the federal deduction for individuals and \$7,000 over the federal deduction for those with a filing status of married filing joint. This increase in the standard deduction is also to begin January 1, 2023.

The current individual income tax top rate is 5.2% starting in 2023. Based on the current revenue forecasts and average revenue growth, the Department estimates that in FY 2024, FY 2025 and FY 2026 revenues will reach the growth trigger requirements of this language. While this proposal requires the calculation of the revenue trigger each year to determine if the rate is to be reduced; for the purposes of the fiscal note the Department will assume the revenue trigger is met and a reduction occurs.

The Department used its internal Income Tax Model that contains confidential taxpayer data from the 2019 tax year (the most recent complete tax year data) to calculate the fiscal impact.

Tax Year	Amount
2023	(\$465,419,888)
2024	(\$469,763,747)
2025	(\$482,646,043)
2026	(\$479,551,981)
2027	(\$490,078,661)
2028	(\$602,987,059)
2029	(\$715,500,328)
2030	(\$827,808,341)
2031	(\$939,515,449)

The Department uses a 42%/58% split to convert from the tax year to fiscal year.

Fiscal Year	Loss to GR
2023	(\$195,476,353)
2024	(\$467,244,309)
2025	(\$475,174,312)
2026	(\$481,346,537)
2027	(\$483,973,187)
2028	(\$537,500,188)
2029	(\$650,242,632)
2030	(\$762,669,693)
2031	(\$874,725,326)
2032	(\$939,515,449)

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 143.011 would create a flat 4.8% tax rate on all income above \$100 starting tax year 2023. In addition, starting in tax year 2024 an additional eight 0.1% reductions may occur depending on net general revenue growth. Each 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 143.011.7.

B&P notes that under current law, the top tax rate is 5.3% for tax year 2022 and will be 5.2% starting with tax year 2023. B&P further 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
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%

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.

Section 143.131 would increase the standard deduction by \$3,500 per taxpayer, or \$7,000 for married filing joint taxpayers.

Income Tax Summary

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 reduce tax collections by \$471.0M in tax year 2023. Once this proposal fully implements, B&P estimates this provision could reduce tax collections by \$945.8M 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
2023	(\$471,035,316)
2024	(\$476,034,161)
2025	(\$487,639,427)
2026	(\$484,449,166)
2027	(\$495,085,621)
2028	(\$608,313,817)
2029	(\$721,152,668)
2030	(\$833,807,394)
2031	(\$945,830,607)

However, because this proposal would take effect January 1, 2023 individuals will adjust their withholdings and declarations during FY23. 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 reduce TSR and GR by \$197.8M in FY23. Once fully implemented, and annually thereafter, this proposal may reduce TSR and GR by \$945.8M, 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	(\$197,834,833)
2024	(\$473,134,831)
2025	(\$480,908,373)
2026	(\$486,299,518)
2027	(\$488,916,477)
2028	(\$542,641,463)
2029	(\$655,706,134)
2030	(\$768,467,653)
2031	(\$880,857,143)
2032	(\$945,830,607)

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 the resources and/or 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 B&P's estimated impact for this proposal.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2032)
GENERAL REVENUE FUND				
Revenue Loss - §143.011, §143.031, §143.131 Changes to Individual Income Tax rate p. 3-6	(\$197,834,833)	(\$473,134,831)	(\$480,908,373)	(\$945,830,607)
Costs -§143.011 - §143.131 DOR Individual Income Tax Programming and form changes p. 4	(\$20,000)	\$0	\$0	\$0
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	(\$197,854,833)	(\$473,134,831)	(\$480,908,373)	(\$945,830,607)

<u>FISCAL IMPACT – Local Government</u>	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)

As specified in this bill, beginning January 1, 2023, a tax of 4.8% is imposed for every tax year on the Missouri taxable income of every resident. Beginning with the 2024 calendar year, the 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.

COMBINED RETURNS (Section 143.031)

For combined tax returns, current law defines the taxable income of each spouse as the proportion of such person's Missouri adjusted gross income bears to the combined adjusted gross income. For all tax years beginning on or after January 1, 2023, this bill ends such provision.

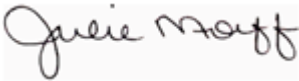
MISSOURI STANDARD DEDUCTION (Section 143.131)

Beginning January 1, 2023, this bill increases the Missouri standard deduction to the allowable federal standard deduction plus an additional \$3500 for an individual taxpayer or an additional \$7000 for married taxpayers filing a combined return.


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



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September 27, 2022



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September 27, 2022