COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5994H.01I
Bill No.: HB 12
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 and corporate 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)	($490,911,398)	($534,290,982)	($1,230,683,752)
Total Estimated Net Effect on General Revenue	**($197,854,833)**	**($490,911,398)**	**($534,290,982)**	**($1,230,683,752)**

***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 a flat rate of 4.80% starting January 1, 2023. Additionally, this proposal allows for eight additional 0.1% GR-growth-dependent reductions that could occur as early as CY 2024 (assuming the GR-dependent trigger was 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.
** Currently, an income tax is imposed on the taxable income of corporations at a rate of 4%. This proposal also allows eight corporate income tax 0.20% reductions beginning January 1, 2024. The fiscal note reflects the assumptions that the current triggers would have been met each year occurring in CY 2024 – CY 2032.

Numbers within parentheses: () indicate costs or losses.

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

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**	**($2,592,497)**	**($20,975,657)**

*Oversight notes per Section 148.720 whenever there is a reduction in the corporate tax rate there shall be a proportional decrease in the financial institutions tax. Oversight further notes that the financial institutions tax is distributed to GR (2%) and local funds (98%) on an annual basis and that tax payments for tax year 1 are distributed in FY2.

FISCAL ANALYSIS

ASSUMPTION

Sections 143.011, 143.031, & 143.131 Individual Income Tax Rate

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, DOR 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 its 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 that under the current law, SB 509 (2014) and SB 153 (2021) allows for a top rate of 4.8% to be established by CY 2027, as shown below.

Oversight notes that this proposal replaces the current tax brackets with a flat individual income tax rate of 4.8% on all income above $100, beginning with the 2023 calendar year. This proposal also allows eight additional 0.10% GR-growth-dependent reductions beginning in calendar 2024 until it reaches 4.0%. Oversight will assume each year, for purpose of this fiscal note; the additional triggers would be met to show the impact to the general revenue as shown below:

Tax Year	Current Law	Proposal	Effect
2023	5.2	4.8	Proposed flat individual income tax rate
2024	5.1	4.7	Proposed 0.1% reduction (Dependent on GR growth)
2025	5.0	4.6	Proposed 0.1% reduction (Dependent on GR growth)
2026	4.9	4.5	Proposed 0.1% reduction (Dependent on GR growth)
2027	4.8	4.4	Proposed 0.1% reduction (Dependent on GR growth)
2028	4.8	4.3	Proposed 0.1% reduction (Dependent on GR growth)
2029	4.8	4.2	Proposed 0.1% reduction (Dependent on GR growth)
2030	4.8	4.1	Proposed 0.1% reduction (Dependent on GR growth)
2031	4.8	4.0	Proposed 0.1% reduction (Dependent on GR growth)

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.

Section 143.071 Corporate Tax Rate

Officials from the **Department of Revenue (DOR)** note the proposed legislation would reduce the Missouri corporate income tax rate starting in 2024. Each reduction in the corporate tax rate will be by two-tenths of a percent and no more than one reduction can occur each calendar year. No more than 8 reductions can occur.

This proposal establishes a trigger for the reductions. A reduction in the rate of tax shall occur only if the amount of revenue collected from corporate income tax in the previous fiscal year exceeds the highest amount of revenue collected from corporate income tax in any of the three fiscal years prior to such fiscal year by at least ten million dollars.

The corporate tax rate is currently 4%. FY 2022 net collections were $711.1M. The Department is unable to estimate when these reductions will occur. For the simplicity of the fiscal note, DOR will assume these reductions trigger consecutively.

Corporate Rate Reductions

Tax Year	Tax Rate	General Revenue Loss
2023 Current	4.0%	$0
2024	3.8%	($17,776,567)
2025	3.6%	($53,329,701)
2026	3.4%	($88,882,835)
2027	3.2%	($124,435,968)
2028	3.0%	($159,989,102)
2029	2.8%	($195,542,236)
2030	2.6%	($231,095,370)
2031	2.4%	($266,648,504)

Per Section 148.720 whenever there is a reduction in the corporate tax rate, there shall be a proportional decrease in the financial institutions tax. The financial institutions tax is currently 4.48% with 98% of it distributed to locals and 2% retained by general revenue. Per Section 148.720 the reduction in the financial institutions tax is reduced in the following year. The FY 22 collections were $53,870,066. Therefore, the financial institutions tax would be 4.22% in FY 2024. This will result in the following loss to the state and locals.

Fiscal Year	Tax Rate	General Revenue Loss	Loss to Locals
2024	4.26%	$0	$0
2025	4.04%	($52,908)	($2,592,497)
2026	3.82%	($105,816)	($5,184,994)
2027	3.60%	($158,724)	($7,777,491)
2028	3.37%	($211,632)	($10,369,988)
2029	3.15%	($266,945)	($13,080,325)
2030	2.92%	($319,854)	($15,672,822)
2031	2.70%	($375,167)	($18,383,160)
2032	2.70%	($428,075)	($20,975,657)

The Department of Revenue notes these provisions will require changes to its taxpayer program, forms and website. DOR estimates it will cost $10,000 for these changes. No additional FTE would be needed to implement these tax changes.

Oversight notes that DOR assumes this proposal will require programming changes estimated to cost $10,000. **Oversight** assumes the Department of Revenue is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Officials from the **Office of Administration - Budget and Planning (B&P)** note Section 143.071 would allow for eight 0.2% reductions to the corporate income tax rate, starting with tax year 2024 and dependent on corporate income tax revenue growth. Each reduction shall only occur if net corporate income tax revenues grow by at least $10 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 143.071.4(2).

B&P notes that under Section 148.720, RSMo, the financial institutions tax (formerly known as the bank franchise taxes) (Sections 148.030, 148.140, and 148.620, RSMo.) shall be reduced by a proportional amount to any reduction in the corporate income tax. Such reduction shall occur in the calendar year in which the corporate tax rate is reduced. Table 3 shows the proposed tax rates for corporations and the corresponding reduced financial institution tax rates.

Table 4: Proposed Corporate Tax Rate

Tax Year	Corporate Rate	Franchise Tax Rate
2023	4.0%	4.48%
2024	3.8%	4.26%
2025	3.6%	4.04%
2026	3.4%	3.82%
2027	3.2%	3.60%
2028	3.0%	3.37%
2029	2.8%	3.15%
2030	2.6%	2.92%
2031	2.4%	2.70%

Corporate Income Tax
In FY22, net corporate tax collections were $711,062,676 at a tax rate of 4.0%.

B&P estimates that reducing the corporate income tax could reduce GR by $35.6M beginning with tax year 2023. Once fully implemented, B&P estimates this provision could reduce corporate income tax collections by $284.4M annually.

However, because this proposal would take effect January 1, corporations would adjust their declarations payments during FY24. Based on historic remittance patterns, B&P notes that corporate income tax collections are split approximately 50/50 between fiscal years. Table 5 shows the estimate impact on general revenue by fiscal year.

Table 5: Impact to GR from Corporate Rate Reduction

Tax Year	GR Impact
FY24	($17,776,567)
FY25	($53,329,701)
FY26	($88,882,835)
FY27	($124,435,968)
FY28	($159,989,102)
FY29	($195,542,236)
FY30	($231,095,370)
FY31	($266,648,504)
FY32	($284,425,070)

Financial Institution Tax

B&P notes that the financial institution tax is paid annually in the fiscal year following the end of a calendar year. In FY22, financial institutions tax collections were $53,870,066 at a tax rate of 4.48%.

B&P notes that the financial institutions tax is distributed to GR (2%) and local funds (98%) on an annual basis and that tax payments for tax year 1 are distributed in FY2. For example: tax payments for 2024 will be collected and distributed during FY25. Table 6 shows the estimated impact on state and local funds by fiscal year.

Table 6: State and Local Impact from Brank Franchise Tax Reduction

Tax Year	GR (2%)	Local (98%)
FY24	$0	$0
FY25	($52,908)	($2,592,497)
FY26	($105,816)	($5,184,994)
FY27	($158,724)	($7,777,491)
FY28	($211,632)	($10,369,988)
FY29	($266,945)	($13,080,325)
FY30	($319,854)	($15,672,822)
FY31	($375,167)	($18,383,160)
FY32	($428,075)	($20,975,657)

Corporate Summary

B&P estimates that this provision may reduce TSR and GR by $17.8M in FY24. Once fully implemented, this proposal could annually reduce TSR and GR by $284.9M. This proposal could also reduce local funds by $21.0M annually once fully implemented. Table 7 shows the impacts by state and local fund by fiscal year.

Table 7: State and Local Impact from Corporate Rate Reduction

	FY24	FY25	FY26
State Impact			
Corporate Tax Rate Reduction	($17,776,567)	($53,329,701)	($88,882,835)
Financial Institutions Tax Rate Reduction	$0	($52,908)	($105,816)
Total GR Loss	($17,776,567)	($53,382,609)	($88,988,651)
Local Impact	FY24	FY25	FY26
Financial Institutions Tax Rate Reduction	$0	($2,592,497)	($5,184,994)

Table 7: State and Local Impact from Corporate Rate Reduction (cont.)

	FY27	FY28	FY29
State Impact			
Corporate Tax Rate Reduction	($124,435,968)	($159,989,102)	($195,542,236)
Financial Institutions Tax Rate Reduction	($158,724)	($211,632)	($266,945)
Total GR Loss	($124,594,692)	($160,200,734)	($195,809,181)
Local Impact	FY27	FY28	FY29
Financial Institutions Tax Rate Reduction	($7,777,491)	($10,369,988)	($13,080,325)

Table 7: State and Local Impact from Corporate Rate Reduction (cont.)

	FY30	FY31	FY32
State Impact			
Corporate Tax Rate Reduction	($231,095,370)	($266,648,504)	($284,425,070)
Financial Institutions Tax Rate Reduction	($319,854)	($375,167)	($428,075)
Total GR Loss	($231,415,224)	($267,023,671)	($284,853,145)
Local Impact	FY30	FY31	FY32
Financial Institutions Tax Rate Reduction	($15,672,822)	($18,383,160)	($20,975,657)

Oversight notes for the purpose of this fiscal note, Oversight will note B&P'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				
Revenue Loss - §143.011, §143.031, §143.131 Changes to Individual Income Tax rate p. 3-7	($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
Revenue Loss - §143.071 – Changes to Corporate Tax p. 7-11	$0	($17,776,567)	($53,329,701)	($284,425,070)
Revenue Loss - §143.071 – Changes to Financial Institutions Tax p. 7-11	$0	$0	($52,908)	($428,075)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($197,854,833)**	**($490,911,398)**	**($534,290,982)**	**($1,230,683,752)**

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2032)
LOCAL POLITICAL SUBDVISIONS				
<u>Revenue Loss</u> - §143.171 (§143.071) – Decrease of financial institutions tax p. 7-11	<u>$0</u>	<u>$0</u>	<u>($2,592,497)</u>	<u>($20,975,657)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDVISIONS	**<u>$0</u>**	**<u>$0</u>**	**<u>($2,592,497)</u>**	**<u>($20,975,657)</u>**

<u>FISCAL IMPACT – Small Business</u>

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

<u>FISCAL DESCRIPTION</u>

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.

CORPORATE INCOMES TAXES (Section 143.071)
Currently, an income tax is imposed on the taxable income of corporations at a rate of 4%. Beginning January 1, 2024, the rate of tax may be reduced by .2%. 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 revenue collected from corporate income tax in the previous fiscal year exceeds the highest amount of revenue collected from corporate income tax in any of the three fiscal years prior to such fiscal year by at least $10 million. The $10 million threshold will be adjusted for inflation as specified in the bill.

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

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September 27, 2022

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