COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1867H.04P
Bill No.: Perfected HCS for HB Nos. 816 & 660
Subject: Taxation and Revenue - General; Taxation and Revenue - Sales and Use; Taxation and Revenue - Income; Department of Revenue
Type: Original
Date: March 21, 2023

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Bill Summary: This proposal modifies provisions relating to state sales tax and corporate income tax rates with a revenue trigger.

## FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | | |
|---|---|---|---|---|
| FUND AFFECTED | FY 2024 | FY 2025 | FY 2026 | Fully Implemented (FY 2028) |
| General Revenue | ($529,225,123)* | ($1,000,274,652) | ($997,311,039) | ($1,175,111,184) |
| | | | | |
| **Total Estimated Net Effect on General Revenue** | **($529,225,123)** | **($1,000,274,652)** | **($997,311,039)** | **($1,175,111,184)** |

*The impact for FY 2024 is smaller because it reflects a partial year

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | | |
|---|---|---|---|---|
| FUND AFFECTED | FY 2024 | FY 2025 | FY 2026 | Fully Implemented (FY 2028) |
| | | | | |
| | | | | |
| **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 2024 | FY 2025 | FY 2026 | Fully Implemented (FY 2028) |
| | | | | |
| | | | | |
| **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 2024 | FY 2025 | FY 2026 | Fully Implemented (FY 2028) |
| | | | | |
| | | | | |
| **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 2024 | FY 2025 | FY 2026 | Fully Implemented (FY 2028) |
| | | | | |
| **Local Government** | **$0** | **$0** | **$0** | **$0** |

## <u>FISCAL ANALYSIS</u>

ASSUMPTION

**Section 143.011 Individual Income Tax Rate Reduction**

Officials from the **Department of Revenue (DOR)** note the current individual income tax rate for tax year 2023 is 4.95% per SB 3 (2022) and is projected to be 4.8% for tax years 2024 & 2025. Per SB 3, the individual income tax rate is then scheduled to drop over a period of years to 4.5% based on certain state revenue growth. The Department is unable to determine when these scheduled drops in the rate will actually occur, but for fiscal note purposes only, DOR will assume they will drop over the next consecutive years.

This provision changes the rate for tax year 2024 to 4.5% and then allows the rest of the SB 3 rate reductions to continue for tax year 2024 and beyond. Therefore, the current and proposed rates are:

Current and Proposed Income Tax Rates

| Tax Year | Current (assumed) Rate | Proposed Rate |
|---|---|---|
| 2024 | 4.8% | 4.35% (4.5% - .15%) |
| 2025 | 4.8% | 4.35% |
| 2026 | 4.7% | 4.25% |
| 2027 | 4.6% | 4.15% |
| 2028+ | 4.5% | 4.05% |

The Department used its internal Income Tax Model that contains confidential taxpayer data to estimate the fiscal impact. The model calculates the calendar/tax year impact, then converts the data to fiscal year using a 42% in the first year and 58% in the second year split for conversion. The loss to General Revenue is projected as follows:

By Tax Year

| Tax Year | Loss To General Revenue |
|---|---|
| 2024 | ($505,699,033) |
| 2025 | ($503,748,664) |
| 2026 | ($507,041,169) |
| 2027 | ($508,067,496) |
| 2028 | ($508,814,511) |

By Fiscal Year

| Fiscal Year | Loss to General Revenue |
|---|---|
| 2024 | ($211,574,439) |
| 2025 | ($504,879,878) |
| 2026 | ($505,131,516) |
| 2027 | ($507,472,226) |
| 2028 | ($508,381,243) |
| 2029 | ($508,814,511) |

This provision will require modification to the MO-1040 form and to the MO-1040P form. Additionally DOR will need to modify their website and their individual income tax computer system. These changes are estimated to cost $7,193.

At this time, the Department believes it can handle this work with existing resources. However, should DOR reach the number of errors or correspondence to justify additional FTE from this proposal or in combination with other proposals that will pass, DOR will seek the required number of FTE through the appropriation process. The Department is providing the number of errors or correspondence that require additional FTE.

1 FTE Associate Customer Service Rep for every 14,700 errors created
1 FTE Associate Customer Service Rep for every 5,700 pieces of correspondence generated

In response to a previous version (HCS HBs 816 & 660), officials from the **Office of Administration - Budget and Planning (B&P)** stated this proposal would reduce the top income tax rate to 4.5% starting tax year 2024. B&P notes that this proposal retains the income tax reductions that are scheduled to occur under current law.

Based on current revenue forecasts and average revenue growth, B&P estimates that revenues in FY23, FY25, FY26, and FY27 will reach the SB 3 (2022) growth trigger requirement for reductions to the top rate of tax. Therefore, the top rate of tax is estimated to be reduced in tax years 2024 (0.15%), 2026 (0.1%), 2027 (0.1%), and 2028 (0.1%) under SB 3 (2022). Table 1 shows the current versus proposed individual income tax.

Table 1: Current Top Tax Rate vs Proposed Rate

| Tax Year | Current | Proposed |
|---|---|---|
| 2023 | 4.95% | N/A |
| 2024 | 4.80% | 4.35% |
| 2025 | 4.80% | 4.35% |
| 2026 | 4.70% | 4.25% |
| 2027 | 4.60% | 4.15% |

| | | |
|---|---|---|
| 2028 | 4.50% | 4.05% |

**Assumes SB 3 (2022) reductions are triggered for tax years: 2024, 2026, 2027, and 2028.*

Using tax year 2020 data, the most recent complete tax year available, and accounting for the changes in individual income tax law created by SB 3 (2022), B&P estimates that this section may reduce tax collections by $514.7M for calendar year 2024. Once SB 3 (2022) has fully implemented, B&P estimates this provision could reduce tax collections by $517.9M annually. Table 2 shows the assumed top tax rates and estimate impact by calendar year.

Table 2: Impact by Tax Year

| Tax Year | GR Impact |
|---|---|
| 2024 | ($514,725,108) |
| 2025 | ($512,772,465) |
| 2026 | ($516,077,095) |
| 2027 | ($517,108,521) |
| 2028 | ($517,857,688) |

However, because this proposal would take effect January 1, 2024, individuals will adjust their withholdings and declarations during FY24. 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 will reduce TSR and GR by $216.2M in FY24. Once SB 3 (2022) has been fully implemented in FY29, and annually thereafter, this proposal may reduce TSR and GR by $517.9M. Table 3 shows the estimated impact from this section by fiscal year.

Table 3: Impact by Fiscal Year

| Fiscal Year | GR Impact |
|---|---|
| 2024 | ($216,184,545) |
| 2025 | ($513,904,998) |
| 2026 | ($514,160,410) |
| 2027 | ($516,510,294) |
| 2028 | ($517,423,171) |
| 2029 | ($517,857,688) |

**<u>Section 143.071 Corporate Income Tax Rate Reduction</u>**

Officials from the **Department of Revenue (DOR)** note the current corporate tax rate is 4% a year. The FY 2022 net collections were $711.1 million. Starting January 1, 2024, this proposal will reduce the corporate tax rate to 2% for tax year 2024. Since this proposal is effective January 1, 2024 it is assumed only 6 months of collections will be impacted in FY 2024.

Then starting in tax year 2026, this proposal provides that another 1% reduction can occur if the amount of revenue received in FY 2025- 2026 exceeds the FY 2024-2025 collections by $50 million. If it does, the 1% rate reduction will occur starting the following tax year. Therefore, the earliest this reduction could occur is tax year 2027.

Additionally in Section 143.071.6, this proposal establishes a procedure by which the corporate tax rate could be reduced to zero. It says that if the FY 2028 net general revenue collections are greater than $250 million over the FY 2027 net general revenue collections then the corporate rate will be reduced to zero. At this time, the Department is unable to predict if reducing the corporate rate to 1% would increase revenue by the $250 million for the trigger.

This provision then allows a final reduction to 0% if it meets the $250 million trigger. This will result in a loss to general revenue.

| Corporate Rate Reduction | FY 2024 | FY 2025 | FY 2026 | FY 2027 | FY 2028 | FY 2029 |
|---|---|---|---|---|---|---|
| | ($177,765,669) | ($355,531,338) | (355,531,338) | ($444,414,173) | ($533,297,007) | ($711,062,676) |

This provision in Section 143.071.8(1) states that upon the corporate tax rate being eliminated, corporations would no longer be allowed to claim tax credits. Many of the state tax credits are allowed to be sold, transferred and assigned and it is assumed corporations would continue that practice. Additionally, some companies may choose to no longer participate in tax credit programs, freeing up credits for other organizations to claim.

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. However, section 143.071.8(2) states this proposal will not cause a reduction or elimination of the financial institutions tax under Chapter 148. Therefore this provision will not have a fiscal impact.

This provision will result in changes needing to be made to computer programs and forms. These changes are estimated at $7,193.

**B&P** states Section 143.071.4 will reduce the corporate income tax 2%, starting with tax year 2024.

Section 143.071.5 would reduce the corporate income tax rate by an additional 1%, when net corporate income tax collections exceed the amount of net corporate income tax collections in FY25. B&P notes that because the rate reduction could not start until the calendar year after the trigger was met, tax year 2027 (FY26 vs FY25 corporate revenues) is the first possible year for the reduced rate. For the purpose of this fiscal note, B&P will assume the reduction is triggered for tax year 2027.

Section 143.071.6 appears to allow an additional 1% reduction, taking the corporate tax rate to 0%. However, due to language issues it does not appear that this reduction could actually be triggered. B&P notes that this subsection would:

- Only allow the additional reduction in the calendar year after the rate reduction is triggered under subsection 5.
    - Since B&P assumes the first reduction would be triggered for tax year 2027, this subsection would apply to tax year 2028.
    - The use of "immediately following" would prohibit this reduction from occurring any year after tax year 2028.
- Net GR in the immediately preceding fiscal year must exceed the net GR in the fiscal year in which the tax reduction under subsection 5 is triggered, by at least $250 million.
    - The immediately preceding fiscal year would be FY27 for a tax year 2028 reduction. However, the fiscal year where the reduction under subsection 5 is implemented would also be FY27 (January 2027 = FY27). Therefore, it is impossible for the $250 million growth trigger to be met.
    - This timing issue is prevalent no matter what year subsection 5 is implemented because this trigger is specifically tied to only the "immediately following" calendar year.

Therefore, for the purpose of this fiscal note, B&P assumes that the reduction under subsection 6 is never triggered and the corporate income tax rate remains at 1% (after subsection 5 reduction). Table 4 shows the proposed corporate tax rates.

Table 4: Proposed Corporate Tax Rate

| Tax Year | Current | Proposed |
|---|---|---|
| 2023 | 4.00% | N/A |
| 2024 | 4.00% | 2.00% |
| 2025 | 4.00% | 2.00% |
| 2026 | 4.00% | 2.00% |
| 2027 | 4.00% | 1.00% |
| 2028 | 4.00% | 1.00% |

*Assume Section 143.071.5 triggered for tax year 2027.
Assumes Section 143.071.6 not triggered.

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. However, **Section 143.071.8(2)** states that the proposed tax rate reductions and elimination under Section 143.071 shall not impact the financial institutions 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 $355.5 million beginning with tax year 2024. Once fully implemented, B&P estimates this provision could reduce corporate income tax collections by $533.3 million annually. Table 5 shows the estimated impact by tax year.

Table 5: Estimated Impact by Tax Year

| Tax Year | GR Impact |
|---|---|
| 2024 | ($355,531,338) |
| 2025 | ($355,531,338) |
| 2026 | ($355,531,338) |
| 2027 | ($533,297,007) |
| 2028 | ($533,297,007) |

*Assume Section 143.071.5 triggered for tax year 2027. Assumes Section 143.071.6 not triggered.

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 6 shows the estimate impact on general revenue by fiscal year.

Table 6: Corporate Income Tax Reduction by Fiscal Year

| Fiscal Year | GR Impact |
|---|---|
| FY24 | ($177,765,669) |
| FY25 | ($355,531,338) |
| FY26 | ($355,531,338) |
| FY27 | ($444,414,173) |

| | |
|---|---|
| FY28 | ($533,297,007) |

*Assume Section 143.071.5 triggered for tax year 2027. Assumes Section 143.071.6 not triggered.

Therefore, B&P estimates that this proposal could reduce TSR and GR by $177.8 million in FY24. Once fully implemented, this proposal could reduce TSR and GR by $533.3 million annually.

B&P notes that **Section 143.071.8(1)** would prevent the use of corporate tax income tax credits once the corporate income tax has been eliminated. B&P notes that the average amount of tax credits taken against corporate income tax was $92,343,664 from FY20 – FY22. However, B&P also notes that corporations could still sell or transfer tax credits. B&P further assumes that this would not impact withholding retention tax credits as they are not taken against corporate income tax but are instead a retention of employee's individual income tax.

In addition, the use of net collections to estimate the potential impact from this proposal already includes the potential that corporate tax credits would no longer be redeemed. Therefore, removing the $92.3 million in corporate tax credits from the estimated impact would double count the potential revenue gain.

**<u>Section 143.125 Social Security Benefit Tax Exemption</u>**

Officials from the **Department of Revenue (DOR)** note this provision is changing the taxability of social security payments. Some social security benefits are taxable depending on the amount of income a person has at the federal level, while other amounts are not. Generally, at the federal level if a taxpayer's income is under $25,000 and they file as an individual or $35,000 if they file a combined return, the social security benefits are not taxable. For any income over those amounts then social security benefits are taxable and the taxable portion is calculated into the taxpayer's federal adjusted gross income (FAGI).

Under Missouri law, if social security benefits are included in a taxpayer's FAGI, and the taxpayer's MAGI is over $85,000 for an individual or $100,000 for those that file combined, their social security is taxable in Missouri. If a taxpayer has a MAGI of less than $85,000 for an individual or $100,000 for those filing combined, then they are allowed to deduction up to the social security maximum from their Missouri taxable income.

The maximum social security benefits a person receives is based on when they start to take the social security benefits and how much they paid into the system through the years. A person can take early social security benefits at 62 receiving a lesser amount of benefits. Social security benefits are considered full benefits starting at age 67, based on the year of a person's birth. The maximum social security benefits are given when a person does not take social security until they reach 70. The maximum social security benefit for 2023 is $43,524. It should be noted that social security annually adjusts the benefit numbers.

This provision starting January 1, 2024, will remove the MAGI limitation determining the taxable portion of social security. If a taxpayer included any portion of their social security benefits into their FAGI they will be allowed a deduction from their Missouri return up to the $43,524 limit of what they claimed in the FAGI.

While currently SB 3 adopted in 2022 set the individual income tax rate at 4.95% in tax year 2023 with the rate scheduled to continue to reduce over a period of several year, this bill is changing those rates. For fiscal note purposes, DOR will show the loss at each of this year's individual income tax rates for the implementation period. This will result in a loss to general revenue. DOR estimates the loss to general revenue:

| Estimated Loss of Social Security Benefits | | | | | |
|---|---|---|---|---|---|
| Retirement Income | 4.50% | 4.35% | 4.25% | 4.15% | 4.05% |
| Social Security | ($144,686,314) | ($139,863,436) | ($136,648,185) | ($133,432,934) | ($130,217,682) |

Therefore, it could result in a loss to general revenue.

Table 2: Estimated Loss by Fiscal Year of Social Security Benefits

| | Tax Year (Fiscal Year) | | | |
|---|---|---|---|---|
| Tax Rate | 2024 (FY25) | 2025 (FY26) | 2026 (FY27) | 2027 (FY28) |
| 4.50% | ($144,686,314) | ($144,686,314) | ($144,686,314) | ($144,686,314) |
| 4.35% | ($139,863,436) | ($139,863,436) | ($139,863,436) | ($139,863,436) |
| 4.25% | | ($136,648,185) | ($136,648,185) | ($136,648,185) |
| 4.15% | | | ($133,432,934) | ($133,432,934) |
| 4.05% | | | | ($130,217,682) |

This provision will require modification to the MO-1040, MO-A, and the MO-1040P forms. Additionally DOR will need to modify their website and their individual income tax computer system. These changes are estimated to cost $7,193.

At this time, the Department believes it can handle this work with existing resources. However, should DOR reach the number of errors or correspondence to justify additional FTE from this proposal or in combination with other proposals that will pass, DOR will seek the required number of FTE through the appropriation process. The Department is providing the number of errors or correspondence that require additional FTE.

1 FTE Associate Customer Service Rep for every 14,700 errors created
1 FTE Associate Customer Service Rep for every 5,700 pieces of correspondence generated

**B&P** notes this section would eliminate the income limits for the individual income tax exemption for social security payments beginning with tax year 2024. Currently taxpayers who are married filing joint may exempt 100% of their social security income, if their Missouri Adjusted Gross Income (MAGI) equal to or less than $100,000. All other taxpayers may exempt 100% of social security income if their MAGI is equal to or less than $85,000.

This proposal would allow all taxpayers, regardless of income, to subtract up to the maximum social security benefit. To prevent double counting the potential revenue impact, B&P will reflect the potential impact under the proposed income tax brackets found in Section 143.011.

Based on data published by the IRS, B&P estimates that this section may exempt $689,197,344 in social security payments for taxpayers filing single, $172,665,756 for taxpayers filing head of household, and $2,353,388,312 for married filing joint taxpayers; for a total of $3,215,251,412 in income exempted under this section.

However, exemptions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from this proposal and SB 3 (2022).

B&P estimates that this section could reduce TSR and GR by $144,686,314 (top tax rate 4.5%) or by $139,863,436 (top tax rate 4.35%) in FY25. Once this proposal and SB 3 (2022) have fully implemented, this section could reduce TSR and GR by $130,217,682 annually.

Table 7: Social Security Subtraction by Fiscal Year

| | Tax Year (Fiscal Year) | | | |
|---|---|---|---|---|
| Tax Rate | 2024 (FY25) | 2025 (FY26) | 2026 (FY27) | 2027 (FY28) |
| 4.50% | ($144,686,314) | ($144,686,314) | ($144,686,314) | ($144,686,314) |
| 4.35% | ($139,863,436) | ($139,863,436) | ($139,863,436) | ($139,863,436) |
| 4.25% | | ($136,648,185) | ($136,648,185) | ($136,648,185) |
| 4.15% | | | ($133,432,934) | ($133,432,934) |
| 4.05% | | | | ($130,217,682) |

<u>**Responses regarding the proposed legislation as a whole**</u>

**DOR** notes this proposal will impact general revenue, from the income tax rate changes, the corporate tax rate changes, and the increased social security exemption. This is estimated to result in a loss.

| Impact to State & Local Funds | | | |
|---|---|---|---|
| | FY 2024 | FY 2025 | FY 2026 |
| **State Funds** | | | |
| General Revenue | ($529,203,544) | ($1,000,274,652) | ($997,311,039) |

| | FY 2027 | FY 2028 | FY 2029 |
|---|---|---|---|
| **State Funds** | | | |
| General Revenue | ($1,085,319,333) | ($1,171,895,932) | ($1,172,329,200) |

**Oversight** will note the one-time cost, estimated at $21,579 associated with the updates of DOR's income tax system for all sections within the proposal, in the fiscal note beginning FY 2024.

In response to a previous version (HCS HBs 816 & 660), **B&P** estimates that this proposal could TSR and GR by $533,813,650 in FY24. Once the individual and corporate income tax changes have fully implemented, this proposal may reduce TSR and GR by $1,181,372,377. Table 8 shows the estimated impact by provision and fund.

Table 8: Summary Impact

| State Funds | FY 2024 | FY 2025 | FY 2026 |
|---|---|---|---|
| General Revenue | | | |
| Individual Income Tax* | ($216,184,545) | ($513,904,998) | ($514,160,410) |
| Corporate Income Tax** | ($177,765,669) | ($355,531,338) | ($355,531,338) |
| Social Security Subtraction* | ($139,863,436) | ($139,863,436) | ($136,648,185) |
| **Total GR Impact** | **($533,813,650)** | **($1,009,299,772)** | **($1,006,339,933)** |
| **Total State Revenue Impact** | **($533,813,650)** | **($1,009,299,772)** | **($1,006,339,933)** |

*Assumes SB 3 (2022) reductions are triggered for tax years: 2024, 2026, 2027, and 2028.
**Assume Section 143.071.5 triggered for tax year 2027.
Assumes Section 143.071.6 not triggered.

Table 9: Summary Impact

| State Funds | FY 2027 | FY 2028 | FY 2029 |
|---|---|---|---|
| General Revenue | | | |
| Individual Income Tax* | ($516,510,294) | ($517,423,171) | ($517,857,688) |
| Corporate Income Tax** | ($444,414,173) | ($533,297,007) | ($533,297,007) |
| Social Security Subtraction* | ($133,432,934) | ($130,217,682) | ($130,217,682) |
| **Total GR Impact** | **($1,094,357,400)** | **($1,180,937,860)** | **($1,181,372,377)** |
| **Total State Revenue Impact** | **($1,094,357,400)** | **($1,180,937,860)** | **($1,181,372,377)** |

*Assumes SB 3 (2022) reductions are triggered for tax years: 2024, 2026, 2027, and 2028.
**Assume Section 143.071.5 triggered for tax year 2027.
Assumes Section 143.071.6 not triggered.

Officials from the **Department of Commerce and Insurance** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for this agency.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

In response to a previous version (HCS HBs 816 & 660), officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. **The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs.** However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

| FISCAL IMPACT – State Government | FY 2024 (10 Mo.) | FY 2025 | FY 2026 | Fully Implemented (FY 2028) |
|---|---|---|---|---|
| | | | | |
| **GENERAL REVENUE** | | | | |
| | | | | |
| Costs – §144.020 - DOR – sales tax computer updates p. (3-6) | ($21,579) | $0 | $0 | $0 |
| | | | | |
| Revenue Reduction - §143.071 - Individual Income Tax Rate Reduction p. (3-4) | ($211,574,439) | ($504,879,878) | ($505,131,516) | ($508,381,243) |
| | | | | |
| Revenue Reduction - §143.071 - Corporate Income Tax Rate Reduction p. (4-5) | ($177,765,669) | ($355,531,338) | ($355,531,338) | ($533,297,007) |
| | | | | |
| Revenue Reduction - §143.125 Social Security Benefit Tax Exemption p. (5-6) | ($139,863,436) | ($139,863,436) | ($136,648,185) | ($133,432,934) |
| | | | | |
| **ESTIMATED NET EFFECT ON GENERAL REVENUE** | **($529,225,123)** | **($1,000,274,652)** | **($997,311,039)** | **($1,175,111,184)** |

| FISCAL IMPACT – Local Government | FY 2024 (10 Mo.) | FY 2025 | FY 2026 | Fully Implemented (FY 2028) |
|---|---|---|---|---|
| | | | | |
| | **$0** | **$0** | **$0** | **$0** |
| | | | | |

FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that is obligated to pay corporate income tax or individual income tax, as such small business would pay a reduced amount of such tax(es).

FISCAL DESCRIPTION

Currently, the rate of tax imposed on the highest bracket of income is 4.95%. Beginning January 1, 2024, this bill lowers the top rate to 4.5%.

Currently, there is a 4% rate of tax imposed on corporate income. Beginning January 1, 2024, this bill lowers the rate of taxation on corporate income to 2%.

Beginning 2025, a further reduction of 1% to corporate income tax may be made if the amount of revenue from corporate income tax collected in the immediately preceding fiscal year exceeds the highest amount of revenue from corporate income tax collected in any fiscal year prior to the immediately preceding fiscal year by at least $50 million. Such a reduction shall only be made once and shall continue in effect for all subsequent years.

Beginning January 1, 2024, any Social Security benefits received by a taxpayer, regardless of age, including retirement, disability, survivors, and supplemental benefits shall be entitled to the maximum exemption available regardless of the taxpayer's filing status or the amount of the taxpayer's Missouri adjusted gross income.

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 Commerce and Insurance
Department of Revenue
Office of the Secretary of State
Joint Committee on Administrative Rules
Jackson County Commissioner

Julie Morff
Director
March 21, 2023

Ross Strope
Assistant Director
March 21, 2023