

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4171H.011
 Bill No.: HB 1812
 Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Taxation and Revenue - Property; Property, Real and Personal; Department of Revenue; State Tax Commission
 Type: Original
 Date: January 29, 2024

Bill Summary: This proposal authorizes an income tax deduction for amounts paid towards tangible personal property taxes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue*	(\$18,923)	(\$90,572,044 to \$91,316,768)	(\$88,624,670 to \$89,353,548)
Total Estimated Net Effect on General Revenue	(\$18,923)	(\$90,572,044 to \$91,316,768)	(\$88,624,670 to \$89,353,548)

* For the purpose of the fiscal note, Oversight assumes a top income tax rate of 4.8% in tax year 2024 (FY 2025) and future income tax rate reductions from SB 3 (2022) will trigger consecutively (4.7% in FY 2026, 4.6% in FY 2027, 4.5% in FY 2028+).

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
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 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue - FTE Changes DOR	0 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	0 FTE	2 FTE	2 FTE

- 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 2025	FY 2026	FY 2027
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 143.135 Personal Property Tax Deduction

Officials from the **Office of Administration - Budget and Planning (B&P)** assume beginning with tax year 2025, this proposal would grant an income tax exemption for the amount of property taxes actually paid on tangible personal property. B&P notes that while the deduction would be available for tax year 2025, it will not be taken until taxpayers file their annual income tax return during FY26.

Based on data published by State Tax Commission and the annual property tax audit reports, B&P estimates that between \$1,923,705,215 and \$1,939,550,401 was paid by individuals for state and local property taxes in tax year 2022.

B&P further notes that deductions 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 SB 3 (2022).

Table 1: Estimated Revenue Loss by Year

Tax Rate	Tax Year (Fiscal Year)			
	2025 (FY26)		2026 (FY27)	
	Low	High	Low	High
4.8%	(\$92,337,850)	(\$93,098,419)	(\$92,337,850)	(\$93,098,419)
4.7%	(\$90,414,145)	(\$91,158,869)	(\$90,414,145)	(\$91,158,869)
4.6%			(\$88,490,440)	(\$89,219,318)
4.5%				

Table 1: Estimated Revenue Loss by Year (cont.)

Tax Rate	Tax Year (Fiscal Year)			
	2027 (FY28)		2028 (FY29)	
	Low	High	Low	High
4.8%	(\$92,337,850)	(\$93,098,419)	(\$92,337,850)	(\$93,098,419)
4.7%	(\$90,414,145)	(\$91,158,869)	(\$90,414,145)	(\$91,158,869)
4.6%	(\$88,490,440)	(\$89,219,318)	(\$88,490,440)	(\$89,219,318)
4.5%	(\$86,566,735)	(\$87,279,768)	(\$86,566,735)	(\$87,279,768)

Therefore, B&P estimates that this proposal could reduce TSR and GR by \$92,337,850 to \$93,098,419 (top tax rate 4.8%) or by \$90,414,145 to \$91,158,869 (top tax rate 4.7%) in FY26.

Once SB 3 (2022) has fully implemented, this proposal may reduce TSR and GR by \$86,566,735 to \$87,279,768 annually.

Officials from the **Department of Revenue (DOR)** assume this proposal creates a deduction from a taxpayer’s Missouri adjusted gross income. The deduction would be equal to 100% of the personal property tax paid by the taxpayer. The amount of personal property tax paid can not include any penalties, interest, fees or special assessments. Nor can you claim this deduction if you receive the Senior Property tax credit.

This proposal is to begin on January 1, 2025, and therefore, will not impact state revenue until January 2026 (FY 2026) when the first tax returns are filed claiming this deduction.

According to the MO State Tax Commission \$1,923,705,214 was paid by Missourians in personal property tax in 2022 (the most recent available data). Deductions do not reduce revenue on a dollar-for-dollar basis but based on the top income rate applied. SB 3 (2022) has set the individual income tax rate at 4.8% for tax year 2024 and is expected to reduce the rate to 4.5% over a series of years based on certain revenue triggers. DOR will show the loss to general revenue based on the variable future tax rates.

Tax Rate	TY25 (FY26)	TY26 (FY27)	TY27 (FY28)	TY28 (FY29)
4.80%	(\$92,337,850)	(\$92,337,850)	(\$92,337,850)	(\$92,337,850)
4.70%	(\$90,414,145)	(\$90,414,145)	(\$90,414,145)	(\$90,414,145)
4.60%		(\$88,490,440)	(\$88,490,440)	(\$88,490,440)
4.50%			(\$86,566,735)	(\$86,566,735)

This proposal will require DOR to add a new line on the MO-1040, the MO-1120 and the MO-PTE (\$7,138). DOR would also need to update the department’s website and individual income tax computer system (\$1,785). This would result in costs of \$8,923.

Additionally, this proposal would require DOR to have confirmation of payment made. DOR assumes DOR would create a form similar to the MO-PTC form to request proof of personal property tax paid. DOR estimates the creation of the new form at \$10,000.

Due to the volume of tax returns that will be filed claiming this deduction, DOR assumes the department will need 2 Associate Customer Services Representatives (\$35,880) to handle the errors and correspondence from this deduction. DOR assumes should the number of errors or correspondence exceed what 2 people can handle DOR would request additional FTE through the appropriation process.

1 FTE Associate Customer Service Representative for every 6,000 credits redeemed.
 1 FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated.

Oversight will note the one-time cost at \$18,923, associated with the updates of DOR's income tax system, website, income tax forms, and the creation of a new form to request proof of personal property tax paid in the fiscal note beginning FY 2025.

Oversight will note the cost of 2 FTE for DOR (Associate Customer Service Representative at \$31,200 annually) to the general revenue in the fiscal note beginning FY 2026.

Oversight notes for the purpose of the fiscal note, Oversight assumes a top income tax rate of 4.8% in tax year 2024 (FY 2025) and future income tax rate reductions from SB 3 (2022) will trigger consecutively (4.7% in FY 2026, 4.6% in FY 2027, and 4.5% in FY 2028+).

Oversight notes no deduction shall be claimed for the amount of tangible personal property tax that has been or is used in obtaining a state tax credit, exemption, subtraction, or a different deduction.

Oversight notes if taxpayers choose to itemize and deduct their tangible personal property tax for federal purposes, they would *not* be able to claim this proposed deduction. Oversight is unable to determine what percentage of filers itemize and deduct personal property tax from their income.

Oversight notes the Oversight Division is responsible for providing a Sunset Report pursuant to Section 23.253 RSMo; however, Oversight can absorb the cost with the current budget authority.

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.

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.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE FUND			
<u>Revenue Loss - §143.135 - Personal Property Tax Income Tax Deduction</u>	\$0	(\$90,414,145 to \$91,158,869)	(\$88,490,440 to \$89,219,318)
<u>Costs – DOR - §143.135 – Form and Computer Updates</u>	(\$18,923)	\$0	\$0
<u>Costs – DOR - §143.135</u>			
Personnel Service	\$0	(\$73,195)	(\$74,659)
Fringe Benefits	\$0	(\$57,874)	(\$58,408)
Expense & Equipment	\$0	(\$26,830)	(\$1,163)
<u>Total Costs – DOR</u>	<u>\$0</u>	<u>(\$157,899)</u>	<u>(\$134,230)</u>
FTE Change	0 FTE	2 FTE	2 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$18,923)</u>	<u>(\$90,572,044 to \$91,316,768)</u>	<u>(\$88,624,670 to \$89,353,548)</u>
Estimated Net FTE Change on General Revenue	0 FTE	2 FTE	2 FTE

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

This proposal would positively impact small businesses that qualify for the deduction as described in the proposal. (Section 143.135)

FISCAL DESCRIPTION

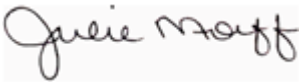
The proposed legislation authorizes an income tax deduction for amounts paid towards tangible personal property taxes.

This program will sunset December 31, 2031.

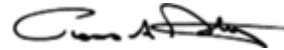
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration - Budget and Planning
Joint Committee on Administrative Rules
Office of the Secretary of State
Department of Revenue
Oversight Division



Julie Morff
Director
January 29, 2024



Ross Strobe
Assistant Director
January 29, 2024