

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4409H.011  
 Bill No.: HB 2106  
 Subject: Political Subdivisions; Taxation and Revenue - Income; Cities, Towns, and Villages; Counties  
 Type: Original  
 Date: January 28, 2024

Bill Summary: This proposal modifies provisions governing income exempt from earnings tax.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue	More or Less than \$77,442	More or Less than \$232,327	More Less than \$232,327
<b>Total Estimated Net Effect on General Revenue</b>	<b>More or Less than \$77,442</b>	<b>More or Less than \$232,327</b>	<b>More Less than \$232,327</b>

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

Numbers within parentheses: () indicate costs or losses.

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

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

- 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.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Local Government</b>	<b>More or Less than (\$5,698,980)</b>	<b>More or Less than (\$17,096,939)</b>	<b>More or Less than (\$17,096,939)</b>

**FISCAL ANALYSIS**

**ASSUMPTION**

**§92.130 – Income Exempt from Earnings Tax for Workers Who Reside in Jefferson & St. Charles Counties**

Officials from the **Office of Administration - Budget and Planning (B&P)** assume this proposal would exempt all income received by residents of Jefferson and St. Charles counties who work in St. Louis City from the city earnings tax.

B&P notes that this proposal would become effective August 28, 2024 – in the middle of tax year 2024. B&P further notes that while earnings tax returns are not due until January of the next year, many city residents have the 1% tax withheld from their paychecks. B&P assumes that the city would still collect (and retain) earnings tax on income earned through August 2024.

Based on data published by the U.S. Census Bureau<sup>1</sup>, there were 217,930 workers within St. Louis City, of which 130,873 reside in Missouri but outside of the city.

Table 1: St. Louis  
 City Residents and  
 Workers, 2021

<u>Residence</u>	<u>Work Location</u>	<u># People</u>	<u>% of Total</u>
St. Louis City	St. Louis City	52,359	19.1%
St. Louis City	Elsewhere	56,125	20.5%
Missouri, not St. Louis City	St. Louis City	130,873	47.8%
Outside Missouri	St. Louis City	34,698	12.7%
<b>Total - all residents and workers</b>		<b>274,055</b>	<b>100.0%</b>

Using data published by St. Louis City<sup>2</sup>, B&P determined that earnings tax collections for FY22 was \$162,872,000. For the purpose of this fiscal note, B&P will assume that the earnings tax is equally distributed among residence and non-residence. Therefore, B&P estimates that 47.8% of the earnings tax comes from Missouri residents living outside of St. Louis City. B&P acknowledges that it is likely that wages are not shared equally among residents and non-residents. Therefore, it is possible that this estimate is too low.

<sup>1</sup> <https://onthemap.ces.census.gov/>

<sup>2</sup> <https://www.stlouis-mo.gov/government/departments/comptroller/documents/current-comprehensive-annual-financial-report.cfm>, FY21 CAFR – Table 9, page 214

Using the above information, B&P estimated the following breakdown of the earnings tax based on residency.

Table 2: Estimated Earnings Tax by Residence and Work

<u>Residence</u>	<u>Work Location</u>	<u>% of Total</u>	<u>Earnings Tax</u>
St. Louis City	St. Louis City	19.1%	\$31,117,166
St. Louis City Missouri, not St. Louis City	Elsewhere	20.5%	\$33,355,316
Outside Missouri	St. Louis City	47.8%	\$77,778,356
	St. Louis City	12.7%	\$20,621,162

Based on additional data published by the U.S. Census, of the Missouri workers, 13,722 live in Jefferson County and 15,046 reside in St. Charles County. Therefore, B&P estimates the Jefferson County residents could account for 10.5% of the earnings tax paid by non-city Missouri residents, while residents of St. Charles County could account for 11.5%.

Therefore, B&P estimates that this provision could reduce St. Louis City earnings tax by approximately \$17,096,939 (\$8,155,040 Jefferson County residents + \$8,941,899 St. Charles County residents) annually starting FY26. Since this provision would become effective August 28, 2024, B&P estimates that this could reduce city earnings tax collections by \$5,698,980 in FY25.

B&P notes that some taxpayers claim the amount of earnings tax paid to St. Louis City in their itemized deductions. Based on 2021 tax return data (the most recent complete year available), B&P determined that 28.3% of Missouri taxpayers itemize their deductions.

Therefore B&P estimates that \$1,613,381 (\$5,698,980 x 28.3%) in fewer deductions would be claimed for tax year 2024. Once fully implemented, B&P estimates that \$4,840,144 (\$17,096,939 x 28.3%) in fewer deductions would be claimed annually.

However, deductions do not reduce revenues on a dollar-for-dollar bases, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impact throughout the implementation of SB 3 (2022).

B&P assumes that this provision may increase TSR and GR by \$77,442 in FY25. Once SB 3 (2022) has fully implemented, this provision could increase TSR and GR by \$217,806 annually. Table 3 shows the estimated state GR impact for future years, through the implementation of SB 3 (2022).

Table 3: Estimated Revenue Gain by Fiscal Year

Tax Rate	Tax Year (Fiscal Year)			
	2024 (FY25)	2025 (FY26)	2026 (FY27)	2027 (FY28)
4.80%	\$77,442	\$232,327	\$232,327	\$232,327
4.70%		\$227,487	\$227,487	\$227,487
4.60%			\$222,647	\$222,647
4.50%				\$217,806

This provision may reduce St. Louis City earnings tax revenue by (\$5,698,980) in FY25. Once fully implemented, this provision may reduce St. Louis City earnings tax revenue by (\$17,096,939) annually.

Officials from the **Department of Revenue (DOR)** state currently the City of Kansas City and the City of St. Louis are allowed to assess an “earnings tax” on citizens or businesses working in their city limits. The tax rate is 1%. Information published by these cities indicates that in FY 2022, the City of St. Louis collected \$162,872,000 in individual earnings tax and \$106,705,000 in business earnings/payroll taxes. Kansas City collected \$230,922,000 in earnings tax and \$74,544,000 in payroll taxes.

This proposal would no longer require citizens who reside in St. Charles County and Jefferson County to be subject to the St. Louis earnings tax even if they work in the city. It should be noted that this proposal would not become effective until August 28, 2024, and it is assumed those citizens would still owe the earnings tax from January to August 28<sup>th</sup> of 2024.

DOR notes that taxpayers who pay the earnings tax can itemize their taxes and claim the amount of taxes they paid as a deduction on their MO-1040. Thereby reducing the amount of taxes paid to St. Louis will drop the number of deductions claimed on the MO-1040 and thereby increase general revenue.

Using data from the U.S. Census Bureau we note there are 217,930 workers in St. Louis City of which 130,873 reside in MO but outside the city.

Table 1: St. Louis City Residents and Workers, 2021

<u>Residence</u>	<u>Work Location</u>	<u># People</u>	<u>% of Total</u>
St. Louis City	St. Louis City	52,359	19.1%
St. Louis City	Elsewhere	56,125	20.5%
Missouri, not St. Louis			
City	St. Louis City	130,873	47.8%
Outside Missouri	St. Louis City	34,698	12.7%
<b>Total - all residents and workers</b>		<b>274,055</b>	<b>100.0%</b>

St. Louis City published data, indicates that they have earnings tax collections for FY22 was \$162,872,000. For the purpose of this fiscal note, we will assume that the earnings tax is equally distributed among residence and non-residence, though recognize that this could underestimate the impact due to higher incomes tend to move out of the city. Therefore, DOR estimates that 47.8% of the earnings tax comes from Missouri residents living outside of St. Louis City.

DOR estimated the following breakdown of the earnings tax based on residency using the above data.

Table 2: Estimated Earnings Tax by Residence and Work

<u>Residence</u>	<u>Work Location</u>	<u>% of Total</u>	<u>Earnings Tax</u>
St. Louis City	St. Louis City	19.1%	\$31,117,166
St. Louis City	Elsewhere	20.5%	\$33,355,316
Missouri, not St. Louis			
City	St. Louis City	47.8%	\$77,778,356
Outside Missouri	St. Louis City	12.7%	\$20,621,162

DOR found data published by the U.S. Census, of the Missouri workers, 13,722 live in Jefferson County and 15,046 reside in St. Charles County. Therefore, Jefferson County residents could account for 10.5% of the earnings tax paid by non-city Missouri residents, while residents of St. Charles County could account for 11.5%. This could reduce St. Louis City earnings tax by approximately \$17,096,939 (\$8,155,040 Jefferson County residents + \$8,941,899 St. Charles County residents); a full year impact starting FY 2026. Since this provision would become effective August 28, 2024, B&P estimates that this could reduce city earnings tax collections for the partial year of FY 2025 by \$5,698,980.

When filing your Missouri individual income tax, a taxpayer is allowed to deduct the amount of earnings tax paid. They must itemize their return to do so. Their records indicate that 28.3% of taxpayers itemize. Thereby reducing the amount owed in earnings tax will increase the amount of revenue paid to Missouri as they can no longer itemize the tax paid.

Given, the estimate of tax no longer owed to the City of St. Louis they estimate that \$1,613,381 (\$5,698,980 x 28.3%) in fewer deductions would be claimed for tax year 2024. Once fully implemented, they expect to see a reduction of \$4,840,144 (\$17,096,939 x 28.3%) being claimed annually. However, deductions do not reduce revenues on a dollar-for-dollar bases, but rather in proportion to the top tax rate applied. SB 3 adopted in 2022, allows the individual income tax rate to be reduced over a period of years based on certain revenue triggers. For tax year 2024 the rate is 4.8% and is allowed to continue to drop to 4.5%. They show the impact of this proposal over the SB 3 triggers.

Table 3: Estimated Revenue Gain by Fiscal Year

Tax Rate	Tax Year (Fiscal Year)			
	2024 (FY25)	2025 (FY26)	2026 (FY27)	2027 (FY28)
4.80%	\$77,442	\$232,327	\$232,327	\$232,327
4.70%		\$227,487	\$227,487	\$227,487
4.60%			\$222,647	\$222,647
4.50%				\$217,806

**Oversight** does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by the B&P and DOR.

**Oversight** notes when citizens pay the earnings tax and they itemize deductions on their individual income tax return, they are allowed a deduction of the local tax paid. Therefore, any reduction in the amount paid by Jefferson County and St. Charles County residents in earnings tax would result in increased revenue to the state’s general revenue fund.

Officials from the **Department of Commerce and Insurance**, the **Department of Labor and Industrial Relations**, the **Missouri State Employee's Retirement System** and the **City of Kansas City** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (4 Mo.)	FY 2026	FY 2027
<b>GENERAL REVENUE</b>			
<u>Savings</u> – calculation of deductions relating to earnings tax that can no longer be itemized on state taxes §92.130	<u>More or Less than \$77,442</u>	<u>More or Less than \$232,327</u>	<u>More Less than \$232,327</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>More or Less than \$77,442</u></b>	<b><u>More or Less than \$232,327</u></b>	<b><u>More or Less than \$232,327</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (4 Mo.)	FY 2026	FY 2027
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Revenue Loss</u> – potential loss in revenue from eliminating the Earnings Tax on nonresidents of St. Louis City who live in Jefferson & St. Charles counties §92.130	<u>More or Less than (\$5,698,980)</u>	<u>More or Less than (\$17,096,939)</u>	<u>More or Less than (\$17,096,939)</u>
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>More or Less than (\$5,698,980)</u></b>	<b><u>More or Less than (\$17,096,939)</u></b>	<b><u>More or Less than (\$17,096,939)</u></b>

FISCAL IMPACT – Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This bill exempts from the earnings tax any taxpayers who maintain a domicile in and reside in a county with more than 200,000 inhabitants that adjoins a county with more than 900,000 inhabitants.

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



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SOURCES OF INFORMATION

Office of Administration - Budget and Planning

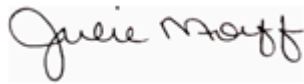
Department of Revenue

Department of Commerce and Insurance

Department of Labor and Industrial Relations

Missouri State Employee's Retirement System

City of Kansas City



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January 28, 2024



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January 28, 2024