

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4812H.05C  
 Bill No.: HCS for HB Nos. 2464 & 2460  
 Subject: Political Subdivisions; Taxation and Revenue - Income; Cities, Towns, and Villages; Counties  
 Type: Original  
 Date: March 11, 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 \$104,203	More or Less than \$312,609	More or Less than \$312,609
<b>Total Estimated Net Effect on General Revenue</b>	<b>More or Less than \$104,203</b>	<b>More or Less than \$312,609</b>	<b>More or Less than \$312,609</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 (\$7,668,440)</b>	<b>More or Less than (\$23,005,320)</b>	<b>More or Less than (\$23,005,320)</b>

## FISCAL ANALYSIS

### ASSUMPTION

**Oversight** was unable to receive some responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

### §92.130 – Income Exempt from Earnings Tax for Low-Income Taxpayers

Officials from the **Office of Administration - Budget and Planning (B&P)** assume this proposal would exempt citizen income from the earnings tax levied by St. Louis City, for individuals with income up to \$30,500.

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.

B&P further notes that the term “citizen” is not defined. It is unclear whether this term refers to city residents, state residents, or U.S. citizens. For the purpose of this fiscal note, B&P assumes that “citizen” applies to all taxpayers that pay the earnings tax – including city non-residents.

### St. Louis City

Based on data published by the U.S. Census Bureau<sup>1</sup>, B&P estimates that up to 102,907 resident and non-resident workers in St. Louis City could qualify.

In addition, based on the same U.S. Census Bureau data, B&P estimates that this proposal could exempt up to \$2.30 billion from the St. Louis City earnings tax.

Therefore, B&P estimates that this proposal could reduce St. Louis City earnings tax collections by up to \$23,005,320 (\$2,300,532,000 x 1%) annually. For tax year 2024 (FY25), B&P estimates that this could reduce St. Louis City earnings tax collections by up to \$7,668,440 (four months of collections) for tax year 2024 (FY25). Table 1 shows the estimated impact.

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

Table 1: Estimated Earnings

	# Workers	Total Earnings	1% Tax
<b>St. Louis City</b>			
Residents Working Outside of City	35,363	\$779,235,500	\$7,792,355
Non-Residents working in City	46,438	\$1,049,319,000	\$10,493,190
City Residents Working in City	21,106	\$471,977,500	\$4,719,775
<b>Total</b>	<b>102,907</b>	<b>\$2,300,532,000</b>	<b>\$23,005,320</b>

General Revenue

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 \$2,170,893 ( $\$7,668,440 \times 28.3\%$ ) in fewer deductions would be claimed for tax year 2024. Once fully implemented, B&P estimates that \$6,512,679 ( $\$23,005,320 \times 28.3\%$ ) 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 up to \$104,203 in FY25. Once SB 3 (2022) has fully implemented, this provision could increase TSR and GR by up to \$293,071 annually. Table 2 shows the estimated state GR impact for future years, through the implementation of SB 3 (2022).

Table 2: Estimated Revenue Gain by Fiscal Year

Tax Rate	Tax Year (Fiscal Year)			
	2024 (FY25)	2025 (FY26)	2026 (FY27)	2027 (FY28)
4.80%	\$104,203	\$312,609	\$312,609	\$312,609
4.70%		\$306,096	\$306,096	\$306,096
4.60%			\$299,583	\$299,583
4.50%				\$293,071

Officials from the **Department of Revenue (DOR)** assume this proposal will make changes to the earning tax that the City of St. Louis assess. This proposal would allow “low-income” citizens an exemption from paying the earnings tax. A low-income citizen is defined as an individual who has an income at or below \$30,500. This proposal does not make clear if the \$30,500 income limit is per job or any and all jobs a person has combined

This proposal would become effective on August 28, 2024, in the middle of a tax year. Earnings tax is owed each year in January covering your earnings of the year before. Most people who pay the tax have money withheld throughout the year to pay the tax. DOR assumes that those who would no longer owe, would have the collection stopped on their income. Therefore, when this proposal starts, some citizens would no longer owe the tax.

Using information from the U.S Census Bureau, and the Inflow/Outflow reports on St. Louis, DOR was able to estimate the number of workers who may be exempt under this proposal. DOR assumes these workers would no longer be required to remit the earnings tax.

<b>St. Louis City</b>	#Workers	Total Earnings	1% Tax
Residents Working Outside of City	35,363	\$779,235,500	\$7,792,355
Non-Residents working in City	46,438	\$1,049,319,000	\$10,493,190
City Residents Working in City	21,106	\$471,977,500	\$4,719,775
<b>Total</b>	<b>102,907</b>	<b>\$2,300,532,000</b>	<b>\$23,005,320</b>

When citizens pay the earnings tax and they itemize their MO individual income tax return, they are allowed a deduction of the local tax paid. Therefore, any reduction in the amount paid to St. Louis would result in increased revenue to the general revenue fund.

Using DOR’s individual income tax data for the most complete year, tax year 2021, DOR determined that 28.3% of Missouri taxpayers itemize their deductions. Using that same 28.3% DOR assumed that \$6,512,679 ( $\$23,005,320 * 28.3\%$ ) is itemized in St. Louis. This would result in \$6,512,679 increased revenue to general revenue in tax year 2025 with \$2,170,893 (4 months) in tax year 2024.

A deduction does not reduce revenue on a dollar-for-dollar basis, but rather in proportion to the highest tax rate. SB 3 will be phasing down the individual income tax from 4.8% to 4.5%. We will show the impact of this proposal throughout implementation of SB 3.

The impact to general revenue:

Table 2: Estimated GR Gain by Year

Tax Rate	Tax Year (Fiscal Year)			
	2024 (FY25)	2025 (FY26)	2026 (FY27)	2027 (FY28)
4.80%	\$104,203	\$312,609	\$312,609	\$312,609
4.70%		\$306,096	\$306,096	\$306,096
4.60%			\$299,583	\$299,583
4.50%				\$293,071

This will require DOR to update our MO-1040 and MO-A form, our website and our computer programs. These changes are estimated at 8,923.

**Oversight** assumes DOR is provided with core funding to handle a certain amount of activity relating to the updating of tax forms 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.

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

Officials from the **Department of Labor and Industrial Relations** 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.

<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 \$104,203</u>	<u>More or Less than \$312,609</u>	<u>More or Less than \$312,609</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>More or Less than \$104,203</u></b>	<b><u>More or Less than \$312,609</u></b>	<b><u>More or Less than \$312,609</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (4 Mo.)	FY 2026	FY 2027
<b>ST. LOUIS CITY</b>			
<u>Revenue Loss</u> – potential loss in revenue from eliminating the Earnings Tax on Low-Income Taxpayers §92.130	<u>More or Less than</u> (\$7,668,440)	<u>More or Less than</u> (\$23,005,320)	<u>More or Less than</u> (\$23,005,320)
<b>ESTIMATED NET EFFECT ON ST. LOUIS CITY</b>	<b><u>More or Less than</u></b> <b>(\$7,668,440)</b>	<b><u>More or Less than</u></b> <b>(\$23,005,320)</b>	<b><u>More or Less than</u></b> <b>(\$23,005,320)</b>

FISCAL IMPACT – Small Business

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

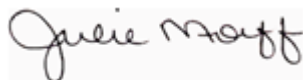
FISCAL DESCRIPTION

This bill exempts from the city earnings tax all taxpayers whose income is at or below \$30,500.

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  
 Department of Revenue  
 Department of Labor and Industrial Relations



Julie Morff  
 Director  
 March 11, 2024



Ross Strobe  
 Assistant Director  
 March 11, 2024