COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1683H.02C
Bill No.: #HCS for HB Nos. 594 & 508
Subject: Taxation and Revenue - Income; Taxation and Revenue - General; Revenue, Department of Revenue
Type: Corrected
Date: February 6, 2025

Bill Summary: This proposal authorizes an income tax deduction for capital gains.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue	Could exceed ($334,818,750)*	Could exceed ($233,082,139)	Could exceed ($232,135,093)
Total Estimated Net Effect on General Revenue	**Could exceed ($334,818,750)***	**Could exceed ($233,082,139)**	**Could exceed ($232,135,093)**

*The fiscal impact for FY2026 will be impacted by 100% of the subtraction for tax year 2025 and a portion of the subtraction for tax year 2026.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Total Estimated Net Effect on FTE	**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 2026	FY 2027	FY 2028
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Section 143.121 - Income Tax Subtraction for Capital Gains

Officials from the **Department of Revenue (DOR)** starting January 1, 2025, this proposal would allow a taxpayer, both individuals and corporations, to subtract from their Federal adjusted gross income (FAGI) any amount reported as capital gains for determining their Missouri adjusted gross income (MAGI). DOR notes this proposal would become effective on August 28, 2025, in the middle of the 2025 tax year. DOR notes that these changes will begin January 1, 2025, however, they will not impact state revenue until the first tax returns are filed in January 2026 (FY 2026). DOR also notes this would limit the amount of time taxpayers have to adjust their withholdings for the tax year.

All sources of income are reported on the federal return and only the total income amount (FAGI number) is reported on the Missouri return. DOR used its internal Income Tax Model that contains confidential taxpayer data from both the federal and state tax return to calculate the fiscal impact of this proposal to individuals.

DOR notes that subtractions do not reduce revenues on a dollar-for-dollar basis, but rather in proportion to the top tax rate applied. SB 3 adopted in 2022, lowers the individual income tax rate over a period of years based on certain revenue triggers. The individual income tax rate for tax year 2025 is 4.7%. For fiscal note purposes only, and based on the current consensus revenue estimates, DOR will show the next reduction of the individual income tax rate occurring in consecutive years starting in tax year 2028.

Individual Income Tax

Tax Year	Amount
2025	($111,051,234.18)
2026	($111,035,453.09)
2027	($111,028,327.15)
2028	($108,683,825.07)
2029	($106,287,765.44)

Based on the department's collection data, the department knows that 42% of all individual income tax is received in the first fiscal year and 58% is received in the second year. Therefore, the department would expect to see a loss to general revenue per fiscal year as follows:

Individual Income Tax

Fiscal Year	Loss to GR
2026*	($157,686,124.47)
2027	($111,032,460.20)
2028	($110,043,636.28)
2029	($107,677,480.02)
2030	($106,287,765.44)

*FY26 will be impacted by 100% of the subtraction for tax year 2025 and a portion of the subtraction for tax year 2026.

Additionally, this proposal allows corporations to subtract their capital gains for determining MAGI. The current corporate income tax rate is 4%. DOR used its internal Income Tax Model that contains confidential taxpayer data from both the federal and state tax returns to calculate the fiscal impact of this proposal to corporations. DOR notes the data was only able to pull information from the electronically filed returns and not those filed on paper. Therefore, DOR notes the actual impact will be larger than estimated.

This proposal will not become effective until August 2025 and taxpayers pay declaration payments on capital gains four times a year in anticipation of their final tax liability. Corporate declarations are due in April, June, September, and December. Therefore, corporations will have a limited time to adjust their declarations to account for this new subtraction. Based on this, DOR will reflect the full impact of tax year 2025 in FY26.

Based on actual collections data, DOR notes that 45% of corporate income taxes are paid during fiscal year 1 and 55% are paid during fiscal year 2. This will result in a loss to general revenue of greater than $183,626,879 in FY 2026 and of greater than $126,639,225 in FY 27 and beyond.

Summary
This proposal is estimated to impact general revenue by:

Table 3: Impact Summary

Fiscal Year	Individual Income	Corporate Income		Total	
FY26*	($157,686,124)	could exceed	($183,626,876)	could exceed	($341,313,000)
FY27	($111,032,460)	could exceed	($126,639,225)	could exceed	($237,671,685)
FY28	($110,043,636)	could exceed	($126,639,225)	could exceed	($236,682,861)
FY29	($107,677,480)	could exceed	($126,639,225)	could exceed	($234,316,705)
FY30	($106,287,765)	could exceed	($126,639,225)	could exceed	($232,926,990)

*FY26 will be impacted by 100% of the subtraction for tax year 2025 and a portion of the subtraction for tax year 2026.

This proposal will require DOR to modify the department's MO-A and MO-1040 forms at a cost of $14,654 ($7,327 apiece), the department's website at a cost of $2,200 and the department's individual income tax computer programming system at a cost of $3,664. These items are estimated to cost $20,518.

Oversight does not have any information to the contrary. Therefore, Oversight will reflect the above costs to DOR to implement this proposal in FY 2026.

Officials from the **Office of Administration - Budget and Planning (B&P)** note beginning with tax year 2025, this proposal would allow taxpayers to subtract capital gains income from their federal adjusted gross income (FAGI) to determine their Missouri adjusted gross income (MAGI).

B&P notes that this subtraction would apply to both individuals and corporations.

<u>Individual Income Tax</u>

B&P notes that under Section 143.011, the top individual income tax rate will be 4.7% for tax year 2025. In addition, based on current revenue forecasts and average revenue growth, B&P estimates that net general revenue growth will not be high enough to trigger another reduction until at least tax year 2028 (FY27 revenue). For the purpose of this fiscal note, B&P will assume that the remaining two 0.1% reductions will occur for tax year 2028 (4.6%) and tax year 2029 (4.5%).

Using tax year 2022 data, the most recent complete tax year available, B&P estimates that this proposal could reduce GR by $106,464,031. Once SB 3 (2022) has fully implemented, this proposal could reduce GR by $101,915,438 annually. Table 1 shows the estimated impact by tax year.

Table 1: Estimated Impact by Tax Year

Tax Year	GR Impact
2025	($106,464,031)
2026	($106,446,013)
2027	($106,438,634)
2028	($104,193,953)
2029	($101,915,438)

B&P notes that this proposal will not become effective until August 2025. B&P further notes that taxpayers pay declarations payments on capital gains four times a year in anticipation of their final tax liability. Individual declarations are due in January, April, June, and September. Therefore, individuals would only have September 2025 and January 2026 to adjust their declarations to account for this new subtraction. Based on this, B&P will reflect the full impact from the tax year 2025 subtraction as occurring during FY26.

Beginning with tax year 2026, individuals will adjust their declarations payments. 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 proposal could reduce GR by $151,171,356 in FY26. Once SB 3 (2022) has fully implemented, this proposal could reduce GR by $101,915,438 annually. Table 2 shows the estimated impact by fiscal year.

Fiscal Year	GR Impact
FY26*	($151,171,356)
FY27	($106,442,914)
FY28	($105,495,868)
FY29	($103,249,392)
FY30	($101,915,438)

*FY26 will be impacted by 100% of the subtraction for tax year 2025 and a portion of the subtraction for tax year 2026.

Corporate Income Tax

Using tax year 2022 data, the most recent complete tax year available, B&P estimates that this proposal could exempt at least $3,165,980,618 in capital gains from Missouri income tax. B&P notes that this number only includes electronically filed corporate tax returns; therefore, the actual amount of capital gains exempted could exceed $3,165,980,618. Using the corporate tax rate of 4.0%, B&P estimates that this proposal could reduce GR by at least $126,639,225 per year.

B&P notes that this proposal will not become effective until August 2025. B&P further notes that taxpayers pay declarations payments on capital gains four times a year in anticipation of their final tax liability. Corporate declarations are due in April, June, September, and December. Therefore, corporations would only have September and December 2025 to adjust their declarations to account for this new subtraction. Based on this, B&P will reflect the full impact from the tax year 2025 subtraction as occurring during FY26.

Beginning with tax year 2026, corporations will adjust their declarations payments. Based on actual collections data, B&P estimates that 45% of corporate income taxes are paid during fiscal year 1 and 55% are paid during fiscal year 2. Therefore, B&P estimates that this proposal could reduce GR by at least $183,626,879 ($56,987,651 Tax Year 2026 declarations adjustments + $126,639,225 tax year 2025 settle-up) in FY26. Beginning in FY27, this proposal could reduce GR by at least $126,639,225 annually.

Summary

B&P estimates that this proposal could reduce TSR and GR by an amount that could exceed $334,798,232 in FY26. Once fully implemented, this proposal could reduce TSR and GR by an amount that could exceed $228,554,663. Table 3 shows a summary of the estimated impacts by fiscal year.

Table 3: Impact Summary

Fiscal Year	Individual Income	Corporate Income		Total	
FY26*	($151,171,356)	could exceed	($183,626,876)	could exceed	($334,798,232)
FY27	($106,442,914)	could exceed	($126,639,225)	could exceed	($233,082,139)
FY28	($105,495,868)	could exceed	($126,639,225)	could exceed	($232,135,093)
FY29	($103,236,977)	could exceed	($126,639,225)	could exceed	($229,876,202)
FY30	($101,915,438)	could exceed	($126,639,225)	could exceed	($228,554,663)

*FY26 will be impacted by 100% of the subtraction for tax year 2025 and a portion of the subtraction for tax year 2026.

Oversight notes both DOR and B&P's estimates include data from DOR's internal Income Tax Model.

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 DOR and B&P. Therefore, for the purpose of this fiscal note, Oversight will note B&P's estimated impact for this proposal.

Oversight notes the state individual income tax rate (4.7% in CY 2025) is to be reduced in annual increments (if certain triggers are met) until it reaches 4.5% pursuant to SB 3 (2022). Based on current revenue forecasts and average revenue growth, DOR and B&P project the next reduction(s) of the individual income tax rate occurring in consecutive years starting in tax year 2028.

FISCAL IMPACT – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
GENERAL REVENUE			
Costs - §143.121 - DOR - Income Tax Subtraction for Capital Gains	($20,518)	$0	$0
Revenue Reduction **-** §143.121 - Individual Income Tax - Income Tax Subtraction for Capital Gains	($151,171,356)*	($106,442,914)	($105,495,868)
Revenue Reduction **-** §143.121 - Corporate Income Tax - Income Tax Deduction for Capital Gains	Could exceed ($183,626,876)*	Could exceed ($126,639,225)	Could exceed ($126,639,225)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**Could exceed ($334,818,750)**	**Could exceed ($233,082,139)**	**Could exceed ($232,135,093)**

*FY26 will be impacted by 100% of the subtraction for tax year 2025 and a portion of the subtraction for tax year 2026.

FISCAL IMPACT – Local Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
	$0	**$0**	**$0**

FISCAL IMPACT – Small Business

Small businesses' taxation would be impacted by this proposal.

FISCAL DESCRIPTION

The proposed legislation authorizes an income tax deduction for capital gains.

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 Revenue
Office of Administration - Budget and Planning

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February 6, 2025

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February 6, 2025