COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2084H.01I
Bill No.: HB 859
Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Taxation and Revenue - Property, Real and Personal; Department of Revenue; State Tax Commission
Type: Original
Date: February 14, 2025

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 2026	FY 2027	FY 2028
General Revenue*	($24,859)	($88,030,008)	($86,096,236)
Total Estimated Net Effect on General Revenue	**($24,859)**	**($88,030,008)**	**($86,096,236)**

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

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
General Revenue - 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 2026	FY 2027	FY 2028
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Section 143.135 Personal Property Tax Deduction

Officials from the **Department of Revenue (DOR)** note 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, any other state tax credit, exemption, subtraction or deduction.

This proposal is to begin on January 1, 2026, and therefore, will not impact state revenue until January 2027 (FY 2027) when the first tax returns are filed claiming this deduction.

According to the MO State Tax Commission $1,910,124,084 was paid by Missourians in personal property tax in 2023 (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 4.7% for tax year 2025 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	TY26 (FY27)	TY27 (FY28)	TY28 (FY29)	TY29 (FY30)
4.70%	($89,775,832)	($89,775,832)	($89,775,832)	($89,775,832)
4.60%		($87,865,708)	($87,865,708)	($87,865,708)
4.50%			($85,955,584)	($85,955,584)

This proposal will require DOR to add a new line on the MO-1040, the MO-1120 and the MO-PTE ($2,200 each). DOR would also need to update its website and individual income tax computer system ($7,327). This would result in costs of $13,927.

Additionally, this proposal would require DOR to have confirmation of payment made. DOR assumes it 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 it will need 2 Associate Customer Services Representatives ($37,020) to handle the errors and correspondence from this deduction. DOR assumes should the number of errors or correspondence exceed what 2 people can handle, the department would request additional FTE through the appropriation process.

Oversight will reflect the above-mentioned 2 FTE for DOR and costs to implement the proposal in the fiscal note.

Officials from the **Office of Administration - Budget and Planning (B&P)** note beginning with tax year 2026, 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 2026, it will not be taken until taxpayers file their annual income tax return during FY27.

Based on data published by STC and the annual property tax audit reports, B&P estimates that $1,965,434,235 was paid in state and local property taxes for tax year 2024.

B&P 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 GR Impact by Tax Rate

Tax Rate	Tax Year (Fiscal Year)		
	2026 (FY27)	2027 (FY28)	2028 (FY29)
4.7%	($92,375,409)	($92,375,409)	($92,375,409)
4.6%	($90,409,975)	($90,409,975)	($90,409,975)
4.5%		($88,444,541)	($88,444,541)

Therefore, B&P estimates that this proposal could reduce TSR and GR by up to $92,375,409 in FY27. Once SB 3 (2022) has fully implemented, this proposal may reduce TSR and GR by $88,444,541 annually.

Oversight notes officials from B&P and DOR both assume the proposal will have a direct fiscal impact on state revenues. Oversight does not have any information to the contrary. Therefore, Oversight will reflect DOR's estimated impact in the fiscal note.

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

<u>Rule Promulgation</u>

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.

FISCAL IMPACT – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
GENERAL REVENUE			
Costs -			
Personnel Service	$0	($75,521)	($77,031)
Fringe Benefits	$0	($61,853)	($62,458)
Expense & Equipment	($24,859)	($26,926)	($1,163)
Total Costs -	($24,859)	($164,300)	($140,652)
FTE Change	0 FTE	2 FTE	2 FTE
Revenue Reduction - §143.135 - Income tax deduction for personal property tax paid	$0	($87,865,708)	($85,955,584)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**($24,859)**	**($88,030,008)**	**($86,096,236)**
Estimated Net FTE Change on General Revenue	0 FTE	2 FTE	2 FTE

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

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

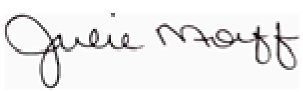
Beginning January 1, 2026, a qualified taxpayer will be allowed a deduction from the taxpayer's Missouri adjusted gross income in an amount equal to 100% of all tangible personal property taxes actually paid by the qualified taxpayer in a given tax year on all tangible personal property taxes owed.

Only the amounts of personal property taxes actually paid by the taxpayer qualify for the deduction and only if the amounts are paid during the tax year for which this deduction is claimed. A deduction cannot 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.

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

<u>SOURCES OF INFORMATION</u>

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



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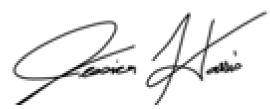
February 14, 2025



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February 14, 2025

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