COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1725H.05C
Bill No.: HCS for SB 365
Subject: Taxation and Revenue - General; Taxation and Revenue - Property; Taxation and Revenue - Income; Property, Real and Personal; Economic Development; Revenue, Department of
Type: Original
Date: April 28, 2021

Bill Summary: This proposal modifies provisions relating to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue Fund*	More than or Less than ($49,280,488 to $60,057,890)	More than or Less than ($108,750,825 to $131,717,164)	More than or Less than ($102,740,839 to $125,704,758)
Total Estimated Net Effect on General Revenue	**More than or Less than ($49,280,488 to $60,057,890)**	**More than or Less than ($108,750,825 to $131,717,164)**	**More than or Less than ($102,740,839 to $125,704,758)**

*Oversight notes, due to changes in the methodology used by B&P and DOR to estimate the impact(s) of sections 143.121 and 143.171 (COVID-related Stimulus Payments) of this proposed legislation, the estimated reduction to GR ($5.9M) is less than the estimated reduction reported in some previous versions. Oversight notes that it does not currently have the resources and/or access to state tax data to produce an independent revenue estimate and is unable to verify the revenue estimates provided by B&P and DOR. Oversight notes the fiscal impact of this proposed legislation (from Section(s) 143.121 & 143.171) represents the state not collecting state income tax on the second and third round of federal economic stimulus refunds distributed in 2020 and 2021. This is not a loss of current funding or a new expense, but rather the non-collection (forgone income) of a potential two-year windfall of income taxes.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
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 2021	FY 2022	FY 2023
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
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 2021	FY 2022	FY 2023
Local Government	**$0 or Less than ($67,314,390)**	**$0 or More than or Less than ($4,064,108)**	**$0 or More than or Less than ($8,747,856)**

FISCAL ANALYSIS

ASSUMPTION

Section 92.111 Earnings Tax on Remote Work - City of St. Louis

Officials from the **Department of Revenue (DOR)** assume this proposal makes changes to the earnings tax levied by Kansas City and the City of St. Louis. This will not fiscally impact the Department as they do not levy or collect the earnings tax.

Officials from the **Office of Administration – Budget & Planning (B&P)** assume this section would exempt nonresident workers of Kansas City and St. Louis City from their 1% earnings tax, for the days that the nonresidents worked remotely.

B&P notes that currently Kansas City is already exempting nonresident remote workers from the earnings tax for the days that nonresident employees worked remotely. Therefore, B&P assumes that this proposal will not impact earnings tax revenues in Kansas City.

B&P notes that St. Louis City is not exempting nonresident income for days that the nonresident worked remotely.

Based on data published by the U.S. Census Bureau 57.1% of St. Louis City residents are employed within city. Based on data previously published by MERIC, approximately 5.8% of workers in St. Louis reside in Illinois. Therefore, B&P estimates that approximately 37.1% of St. Louis City workers reside within Missouri, but outside of St. Louis City.

Using data published by St. Louis City, B&P determined that earnings tax collections for FY20 was $156,910,000. Therefore, B&P estimates that of the $156,910,000 approximately $89,595,610 comes from St. Louis City residents who work within the city, $9,100,780 comes from Illinois residents, and $58,213,610 comes from Missouri residents outside of St. Louis City. B&P notes that city residents would still be liable for the tax because of their residency status. Therefore, B&P estimates that this provision could reduce St. Louis City earnings tax by $67,314,390 ($156,910,000 total earning tax - $89,595,610 St. Louis City residents).

B&P notes that some taxpayers claim the amount of earnings tax paid to St. Louis City in their itemized deductions. Based on information provided by DOR, B&P determined that 12% of Missouri taxpayers itemize their deductions. B&P further notes that residents outside of Missouri are not liable for Missouri income tax on the days where they worked remotely. Therefore, B&P estimates that $6,917,558 to $7,999,009 [($58,213,610 MO residents x 12%) + ($0 to $9,100,780 Illinois residents x 12%)] in deductions would no longer be claimed on Missouri's individual income tax.

However, deductions do not impact revenues on a dollar for dollar bases, but rather in proportion to the top tax rate applied. B&P notes that the top income tax rate for tax year 2020 is 5.4%. Therefore, B&P estimates that this provision could increase state tax collections by $373,548 to $431,946 for tax year 2020. B&P notes that this provision would not become effective until August 28, 2021, which is after tax year 2020 income tax returns are filed. B&P also notes that nonresident worker have up to one year to apply for an earnings tax refund from St. Louis City.

B&P is unable to determine the number of working days that nonresidents worked remotely; therefore, the estimates above reflect the maximum amount of revenue impacts to St. Louis City and state general revenue.

Therefore, B&P assumes that this provision may increase TSR and GR by less than $373,548 to $431,946 in FY22. This provision may reduce St. Louis City earnings tax revenue by less than $67,314,390 in FY22. This provision may have an unknown impact in future tax years.

Oversight notes the 12% itemized deduction percentage used by B&P is a rounded percentage. B&P stated to Oversight that the percentage is closer to 11.88% in the calculation of their numbers above. Oversight does not have information to the contrary and therefore, Oversight will reflect the estimates for the City of Saint Louis as provided by the B&P.

In response to the similar proposal, HB 688, officials from the **City of St. Louis** note the Earnings Tax is the City's single largest source of revenue amounting to over a third of the general fund budget. Total receipts in FY2020 exceeded $175M. The proposed legislation would eliminate the Earnings Tax on nonresidents of the City beginning December 31, 2021. While there is no definitive total of the portion of the Earnings Tax this would represent, a fair estimate would be that approximately half or more of these receipts would be jeopardized by the proposed legislation. A loss of revenue of this magnitude would be a devastating blow to the City's credit and fiscal condition, and would seriously impair the City's ability to provide basic City services. The following illustration shows the order of magnitude:

1/2 Earnings Tax receipts are:

- Over half the total of the FY20 general fund expenditure of the Police Department at $167.5M

Or:

- More than the entire Fire Department budget at $64.3M

Or about equivalent to the costs of these services:

- Corrections and Juvenile Detention: $46.6M
- Forestry Division trimming, weeding, and debris: $7.9M
- Park Maintenance: $8.5M
- Street Maintenance and Repair: $7.1M
- Street and Alley Lighting: $9.6M

- Building Code Compliance and Permits: $7.9M

The potential loss of revenue in the range of $90M annually would jeopardize the City's ability to maintain basic City services.

In addition to General Revenue, there would be a similar negative impact on all TIF developments which utilized a portion of the Earnings tax receipts in its financings, an amount which totaled $5.5M in FY20.

Oversight does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by the B&P for the City of St. Louis.

In response to the similar proposal, HB 688, officials from the **City of Kansas City** assumed the proposal may not be imposed on nonresidents who telecommute. While this conforms to the City's current allocation, it could result in a negative impact in the future should the City later determine to conform to a more expansive interpretation of the earnings tax statute.

Oversight notes according to Kansas City's 2020 Annual CAFR Report, the following is a ten year trend of approximately how much was collected in Earnings Taxes for Kansas City:

Year	Total Revenue Base	Gross Earnings and Profits Tax	Less Redirection of Economic Activity to TIF Special Allocation Fund	Net Collection of Earnings Taxes
2011	19,627,100,000	196,271,000	4,597,000	191,674,000
2012	20,672,700,000	206,727,000	23,760,000	182,967,000
2013	21,325,400,000	213,254,000	15,079,000	198,175,000
2014	21,946,600,000	219,466,000	18,283,000	201,183,000
2015	23,367,900,000	233,679,000	17,649,000	216,030,000
2016	23,689,100,000	236,891,000	13,067,000	223,824,000
2017	24,415,200,000	244,152,000	13,311,000	230,841,000
2018	25,891,400,000	258,914,000	17,109,000	241,805,000
2019	27,805,600,000	278,056,000	15,263,000	262,793,000
2020	25,838,200,000	258,382,000	14,468,000	243,914,000
Source: Kansas City 2020 CAFR Annual Report pgs 376 and 377				

Oversight notes the City of Kansas City state the proposal conforms to their current allocation and B&P states that currently Kansas City is already exempting nonresident remote workers from the earnings tax for the days that nonresident employee worked remotely. Therefore, Oversight will reflect a $0 (the city will not take more extensive take on the current statute) or (Unknown) (the city will take more expensive take on statute and exclude more cost to Kansas City.

Section 92.117 Earnings Tax on Minimum Wage Workers - City of St. Louis

Officials from the **Department of Revenue (DOR)** assume this proposal makes changes to the earnings tax levied by Kansas City and the City of St. Louis. This will not fiscally impact the Department as they do not levy or collect the earnings tax.

Officials from **Office of Administration - Budget and Planning** assume this section would require voters to decide whether the earnings tax should be levied on workers making minimum wage. This would go to a vote in November 2022; therefore, B&P assumes that if voter approved the earnings tax would no longer be levied on such workers beginning January 1, 2023. B&P notes that this could reduce St. Louis City's and/or Kansas City's earning tax collections beginning with tax year 2023. B&P further notes that some taxpayers claim the amount of earnings tax paid to St. Louis City and Kansas City on their itemized deductions. Therefore, this provision may increase GR by $0 to an unknown amount beginning with FY24.

Oversight assumes Saint Louis City is the only one entity fitting the description within the amendment. An article published by National Employment Law Project (NELP), named "A $12 Minimum Wage for All Missourians: More than 2 in 3 Workers Who Will Benefit From Proposition B Live Outside Missouri Two Major Cities", argues that such a raise in minimum wage would affect 46,730 workers in the City of St. Louis.

Taking the number of impacted workers form this research, Oversight calculated the average annual salary and the annual fiscal impact on City of Saint Louis as follows:

People affected by the law	**46,730**		
Calculation	**2021**	**2022**	**2023**
Minimum Wage Missouri	10.3	11.15	12.00
40 Hrs.	$412	$446	$480
Annual Earnings per person	$21,424	$23,192	$24,960
Multiply Annual wage x 46730	$1,001,143,520	$1,083,762,160	$1,166,380,800
Total estimated fiscal impact at 40 hours per week	$10,011,435	$10,837,622	$11,663,808
Total estimated fiscal impact at 30 hours per week	$7,508,576	$8,128,216	$8,747,856

The provision states this law would be implemented in January 1st of the calendar year immediately following the approved question by the voters. The vote would take a place in first available General Municipal Election. That is April of 2022. Therefore, this law would take effect no earlier than January 1st of 2023. (6 Mo in FY 2023). Oversight will assume minimum wage earners would average 30 hours per week (instead of a full 40 hours per week) worked.

Therefore, Oversight will note a range of $0 (not approved by voters) to lesser than ($4,064,108) (*assuming that all workers worked 30 hrs.) for FY 2023, or lesser than or more than (dependent on economic cycle beyond 2023) ($8,747,856) thereafter annually on the fiscal note.

Oversight notes that the projected loss to the City could be higher or lower than estimated by the Oversight depending on the economic cycle in FY 2023 and beyond. Additionally, there is inherent indirect impact where the minimum wage earner is now possibly gaining more income, thus possibly paying higher taxes to the State.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other agencies, cities, counties, schools, and colleges were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in our database is available upon request.

Section 137.280 Electronic Assessment Form

Officials from the **Office of Administration - Budget and Planning**, **Department of Revenue** and the **State Tax Commission** each assume this provision will have no fiscal impact on their organization.

In response to a previous version, officials from the **Jefferson County Assessor's Office** assumed the amount of annual postage cost saved is estimated at $19,848 (92,534 assessment lists mailed x 39% electronic request x $0.55 postage rate). The 39% electronic request rate is based on discussions with assessors who send out postcards per request, and their electronic filing response rate. Also, the savings cost to print, sort, and stuff paper assessment lists for mailing is estimated to be $4,368 ($11,200 printing cost x 39% electronic request). Also, the reduction in paper assessment lists being sent also means they would not be mailed back. This would allow for a reduction of one full-time employee (FTE) that is now allocated to opening, sorting, and scanning in paper assessment lists into their system. The salary and benefits for this position was budgeted at $37,156 for the 2021 budget cycle. In total, this legislation when implemented would constitute an estimated total annual budgetary savings to the Jefferson County Assessment Fund of $61,372.

In response to a previous version, officials from the **Howell County Assessor's Office** stated the impact is limited to the cost of programming to capture and maintain the database. The estimated cost is $2,500-$5,000.

Officials from the **Lincoln County Assessor's Office** assume this provision will have no fiscal impact on their organization.

Per the U.S. Census Bureau, the population of Jefferson County was 225,081 in 2019. **Oversight** notes the number of assessment lists mailed as a proportion of the population is estimated at 41%. If other counties experienced a similar assessment list to population mailing reduction, the savings is estimated at $1,383,990 ((6,137,428 * .41) = $2,516,346 * .55 postage)) based on the population of Missouri.

And if each county were able to reduce their staff by one position at a similar salary, **Oversight** estimates the savings at $4,255,000 ($37,000 * 115).

Oversight is uncertain if other county assessment offices would experience a savings similar to the one estimated by the Jefferson County Assessor. Oversight will show an unknown savings to county assessment offices.

Oversight assumes the cost to implement this proposal would be minimal and could be absorbed with existing resources.

Oversight received a limited number of responses from county assessors related to the fiscal impact of this proposal. Oversight has presented this fiscal note on the best current information available. Upon the receipt of additional 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.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other county assessors were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in our database is available upon request.

Section 143.088 Income Tax Exemption

Officials from **Office of Administration - Budget and Planning (B&P)** assume beginning with tax year 2022, this proposal would exempt individuals younger than 23 from income taxes. B&P notes that this would include wage/salary income, business income, capital gains income, rental income, farm income, etc. B&P also notes that this would apply to any income earned by a businesses, if such business is owned by a qualifying individual.

Based on data published by the U.S. Census Bureau there were 112,591 householders age 25 or younger in 2019. B&P notes that these numbers do not include individuals residing with their parents or other family members. B&P further notes that this includes individuals age 23 and 24, while the exemption would only apply to individuals aged 22 or younger. B&P is unsure as to the extent that the two limitations offset one another, therefore the actual impact could be less than or exceed the estimates shown below. Table 1 shows the number of householders by income range.

Table 1: Number of Householders by Income

Income Range	# Householders
Less than $10,000	18982
$10,000 to $14,999	8691
$15,000 to $19,999	9033
$20,000 to $24,999	9795
$25,000 to $29,999	8540
$30,000 to $34,999	8469
$35,000 to $39,999	7449
$40,000 to $44,999	6815
$45,000 to $49,999	5590
$50,000 to $59,999	10991
$60,000 to $74,999	8653
$75,000 to $99,999	6277
$100,000 to $124,999	2013
$125,000 to $149,999	746
$150,000 to $199,999	321
$200,000 or more	226

B&P notes that an exemption does not reduce revenues on a dollar for dollar basis, but rather depends on the top individual income tax rate. B&P notes that the current top tax rate is 5.4%, with three 0.1% reductions scheduled to occur based on growth triggers. Based on current revenue forecasts and average revenue growth, B&P estimates that revenues in FY21, FY24, and FY25 will reach the SB 509 (2014) growth trigger requirement for reductions to the top rate of tax. Therefore, the top rate of tax will be reduced by 0.1% in tax year 2022, 2025, and 2026 under SB 509 (2014).

Therefore, B&P estimates that this proposal may reduce TSR and GR by $103,081,340 to $125,332,777 (top rate 5.3%) in tax year 2022. Table 2 shows the estimated impact by tax year.

Table 2: Exemption Loss by Calendar Year

Tax Year	Top Tax Rate	Low	High
2022	5.30%	($103,081,340)	($125,332,777)
2023	5.30%	($102,866,948)	($125,116,011)
2024	5.30%	($102,566,689)	($124,813,269)
2025	5.20%	($100,779,149)	($122,606,383)
2026	5.10%	($98,981,374)	($120,390,248)

However, because the tax exemption would take effect January 1, 2022 individuals will adjust their withholdings and declarations during FY22. Therefore, B&P estimates that this proposal may reduce TSR and GR by $43,294,163 to $52,639,767 in FY22. Once SB 509 (2014) has fully implemented this proposal may reduce TSR and GR by $98,981,374 to $120,390,248 annually. Table 3 shows the estimated impact by fiscal year.

Table 3: Exemption Loss by Fiscal Year

Fiscal Year	Low	High
2022	($43,294,163)	($52,639,767)
2023	($102,991,295)	($125,241,735)
2024	($102,740,839)	($124,988,859)
2025	($101,815,922)	($123,886,377)
2026	($100,024,084)	($121,675,606)
2027	($98,981,374)	($120,390,248)

Officials from the **Department of Revenue** assume this proposal, starting January 1, 2022 this proposal would allow no tax to be assessed on the first fifty thousand of income of a taxpayer under the age of 23. They must be under 23 on January 1st each year to qualify.

The Department does not require proof of age at the time of filing a tax return and therefore, they are unable to use taxpayer information to calculate this fiscal note. The 2019 5-Year American Community Survey done by the US Census Bureau reports in Missouri that $4,088,475,300 was the aggregate household income for households under the age of 25.

It should be noted that the American Community Survey is for those under 25 while this proposal is only for those under 23. However, they are unable to reduce the calculation based on those 23 so assume any impact may be overestimated. Additionally, this Survey only accounts for those persons who are householders and not those that may still be living with parents or other relatives. Therefore, any estimate could be underestimated.

The calendar year exemption would be based on the current tax rate of 5.3% projected for 2022-2024.

Table 1: Exemption Loss by Calendar Year

Tax Year	Top Tax Rate	Low	High
2022	5.30%	($103,081,340)	($125,332,777)
2023	5.30%	($102,866,948)	($125,116,011)
2024	5.30%	($102,566,689)	($124,813,269)
2025	5.20%	($100,779,149)	($122,606,383)
2026	5.10%	($98,981,374)	($120,390,248)

The Department uses a 42%/58% split in the first year to the second year when converting from calendar (tax year) to fiscal year.

Table 2: Exemption Loss by Fiscal Year

Fiscal Year	Low	High
2022	($43,294,163)	($52,639,767)
2023	($102,991,295)	($125,241,735)
2024	($102,740,839)	($124,988,859)
2025	($101,815,922)	($123,886,377)
2026	($100,024,084)	($121,675,606)
2027	($98,981,374)	($120,390,248)

Officials from **DOR** assume any administrative impact can be absorbed.

In response to a similar proposal, HB 2353 (2021), officials from **Economic & Policy Analysis Research Center** state, if enacted, this bill would exempt persons under twenty-six years of age from income tax. Unfortunately, they are unable to identify taxpayers under twenty-six years of age within their simulation. The only age group they are able to track are persons sixty-five and over. Research strongly indicates this age group (less than 25) can contribute up to as much as 2% of aggregate incomes and tax liabilities. Conclusion: If enacted, this bill could reduce up to 2% of Missouri Individual Income Tax Collections' contribution to Net General Revenue. Unfortunately, a precise estimation eludes them.

Oversight notes 2% of Missouri Individual Income Tax is estimated $152,938,827 based on individual income taxes for FY 2019 ($7,646,941,371 * .02).

For purposes of this fiscal note, **Oversight** will report a revenue <u>reduction</u> equal to an amount that "More than or Less than" the estimate(s) provided by B&P.

<u>Sections 143.121 and 143.171 Stimulus Payments</u>

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation may reduce Total State Revenue (TSR) by an amount that could exceed $5,986,325 in Fiscal Year 2021 and $5,759,530 in Fiscal Year 2022. B&P notes that this proposed legislation is expected to only impact TSR in Fiscal Year 2021 and Fiscal Year 2022

B&P notes that, due to methodological changes, the estimated impact has been updated from previous versions. Original estimates were based on a percentage of all filers receiving this tax benefit. However, after further deliberation, B&P has determined that fewer taxpayers would qualify than originally estimated. This has significantly lowered the estimated revenue loss from this (and all other related) proposals.

Section B contains an emergency clause for sections 143.121 and 143.171. For the purpose of this fiscal note, B&P will assume that, if approved, this proposed legislation will take effect before the end of Fiscal Year 2021.

Section 143.121 states that a taxpayer shall not include any federal refunds related to COVID-19 stimulus tax credits in their Missouri Adjusted Gross Income (MAGI). B&P notes that individuals who itemize their tax deductions may be required to include federal tax refunds within their MAGI. This provision would exclude refunds due to the COVID-19 stimulus tax credit from this requirement. B&P further notes that this would exempt both the tax credit rebates from the Coronavirus Response & Relief Supplemental Appropriation Act (December 2020) and the American Recovery Plan (March 2021).

B&P notes that there have been three HYPERLINK "https://house.mo.gov/Bill.aspx?bill=SB676&year=2020&code=R" SB 676 (2020)SB 676 (2020) previously exempted the first tax credit/stimulus payments resulting in a federal income tax refund from inclusion in a taxpayer's MAGI. Therefore, this proposed legislation would exempt the second and third rounds of payments/credits. This proposed legislation would also exempt any potential future issuances of COVID related stimulus payments.

Section 143.171 would allow taxpayers to add their COVID-19 stimulus tax credit amount back to their final federal tax due amount, for the purpose of taking the Missouri federal income tax (FIT) deduction. B&P notes that typically anything that reduces federal income taxes due would also reduce the federal income tax deduction amount. B&P further notes that this would exempt both the tax credit rebates from the Coronavirus Response & Relief Supplemental Appropriation Act (December 2020) and the American Recovery Plan (March 2021).

B&P also notes that only the portion of the tax credits that are claimed on a taxpayer's federal final annual return (i.e. any amount of the credit not directly mailed) would lower the taxpayer's federal tax liability. This would then lower the taxpayer's Missouri FIT deduction, causing an increase to their Missouri tax liability. For example: If an individual received a direct payment of $600 for himself or herself, but qualified for an additional $600 then that individual's federal income tax liability could be lowered by the additional $600 rebate they claim when they file their federal 2020 tax return. This in turn could lower their Missouri FIT deduction. The $600 direct payment that the taxpayer received is treated as a non-taxable transfer payment. The direct payment will not impact a taxpayer's federal tax liability and will thus not impact a taxpayer's Missouri FIT deduction.

The second stimulus payments/credits are $600 per taxpayer plus an additional $600 per dependent under age 17. The payments begin to phase-out based on a taxpayer's federal adjusted gross income. For taxpayers filing single, the credit begins to phase out at $75,000. For married taxpayer filing a joint return, the credit begins to phase out at $174,000. For taxpayers filing as head of household, the credit beings to phase out at $124,500. B&P estimates that single returns claim an average of 1.42 children, married filing joint returns claim an average of 2.02 children, and head of household returns claim an average of 1.48 children. Table 1 shows the tax credit, income phase out, and the estimated average tax credit for Missouri taxpayers.

Table 1: Economic Impact Payments – 2nd round

Filing Status	Max Base Income	Base Credit	Credit Per Dependent	Avg. Number of Dependents*	Estimated Avg. Credit	Final Phase-Out Income (no dependents)	Final Phase Out Income (avg. # dependents)
Single	$75,000	$600	$600	1.42	$1,452.00	$87,000	$104,020
Married Filing Joint	$150,000	$1,200	$600	2.02	$2,412.00	$174,000	$198,220
HOH	$112,500	$600	$600	1.48	$1,488.00	$124,500	$142,240

*Based on tax year 2017 Missouri return data.

Based on information published by the Washington Post, the total number of expected payments for the second stimulus is 158 million and approximately 20 million individuals will be required to apply for the tax rebate on their annual tax return in order to receive their stimulus payment. Therefore, B&P assumes that 12.7% of taxpayers nationally could have their federal tax liability lowered due to the rebate. For the purpose of this fiscal note, B&P will assume that 12.7% of Missouri taxpayers will also receive their stimulus payments as a rebate on their tax return.

The third stimulus payments/credits were $1,400 per taxpayer plus an additional $1,400 per dependent under age 17. The payments begin to phase-out based on a taxpayer's federal adjusted gross income. For taxpayers filing single, the credit begins to phase out at $75,000. For married taxpayer filing a joint return, the credit begins to phase out at $150,000. For taxpayers filing as head of household, the credit beings to phase out at $112,500. B&P estimates that single returns claim an average of 1.42 children, married filing joint returns claim an average of 2.02 children, and head of household returns claim an average of 1.48 children. Table 2 shows the tax credit, income phase out, and the estimated average tax credit for Missouri taxpayers.

Table 2: American Recovery Plan (3rd stimulus)

Filing Status	Max Base Income	Base Credit	Credit Per Dependent	Avg. Number of Dependents*	Estimated Avg. Credit	Final Phase-Out Income
Single	$75,000	$1,400	$1,400	1.42	$3,388.00	$80,000
Married Filing Joint	$150,000	$2,800	$1,400	2.02	$5,628.00	$160,000
HOH	$112,500	$1,400	$1,400	1.48	$3,472.00	$120,000

*Based on tax year 2017 Missouri return data.

B&P notes that the number or percentage of individuals that will have to claim all or part of the third stimulus payment on their 2021 taxes is still unknown. For the purpose of this fiscal note, B&P will assume that the same 12.7% of the population that did not receive a direct payment for the second stimulus will also not receive the direct payment for the third stimulus. B&P notes however, that the IRS has until September 2021 to make the direct payments. Therefore, the percentage of individuals claiming the rebate on their 2021 taxes may be lower than the percent that had to claim the second rebate on their 2020 taxes.

Using 2018 tax year data, the most recent complete year available, and adjusting for SB 509 (2014) and HB 2540 (2018), B&P estimates that this provision could reduce General Revenue (GR) by $5,986,325 for the second stimulus payment and $5,759,530 for the third stimulus payment.

B&P notes that rebates for the second stimulus package will be taken on Tax Year 2020 returns. B&P further notes that the rebates for the third stimulus package will be taken on a taxpayer's 2021 tax return.

For the purpose of this fiscal note, B&P will assume that taxpayers will either file or be able to amend their 2020 tax returns during Fiscal Year 2021. Therefore, B&P will show the estimated impact from the second stimulus payment during Fiscal Year 2021. However, it is likely that taxpayers will not be able to amend their 2020 tax returns until Fiscal Year 2022. <u>In which case the loss shown to Fiscal Year 2021 will shift into Fiscal Year 2022</u>.

B&P also notes that it is unknown whether there will be additional stimulus packages passed during the 2021 tax year. B&P estimates that this proposed legislation may reduce TSR and GR by an amount that could exceed $5,986,325 in Fiscal Year 2021. This proposed legislation may reduce TSR and GR by an amount that could exceed $5,759,530 in Fiscal Year 2022. This proposed legislation is not expected to have an impact beyond Fiscal Year 2022.

Officials from the **Missouri Department of Revenue (DOR)** state, in response to the COVID pandemic, the U.S. Congress authorized the Internal Revenue Service (IRS) to make economic stimulus payments to taxpayers. The first round of the economic stimulus payments were issued beginning in April 2020 under the CARES ACT. A second round was distributed starting in December 2020 under the Consolidated Appropriations Act. These were issued by the IRS as tax credits against taxpayer's 2020 tax return. A third round of economic payments were issued in March 2021 as a result of the American Rescue Plan. This third payment will be issued as tax credits against the taxpayer's 2021 tax return. It was the intention of the U.S. Congress to make these stimulus payments tax free at the federal level.

However, due to the way Missouri's federal income tax (FIT) deduction works, items that decrease the federal income tax would reduce the Missouri FIT deduction which would cause an increase in a taxpayer's Missouri tax liability. The intent of this proposed legislation is to exclude these payments from the Missouri FIT calculation and not impact a taxpayer's tax liability.

SB 676 (2020) previously exempted the first economic stimulus payments that were issued in April 2020, from inclusion in a taxpayer's FIT deduction.

DOR notes that many of the economic stimulus payments were mailed directly to taxpayers. These direct payments do not impact a taxpayer's federal liability and are not subject to the Missouri FIT deduction.

However, in some instances, individuals may have qualified for an economic stimulus payment and have not received them through direct payment. As an example, the IRS announced that qualifying widows and widowers would be required to file their 2020 tax return to claim the stimulus payment. Additionally, some parents who did not get the amount they qualify for because of the children they report as dependents could also be required to complete their 2020 to get their stimulus payment. The requirement to file the 2020 tax return to receive the stimulus payment would trigger the taxability of the payment under the Missouri FIT deduction.

The second stimulus payments, which were issued in December 2020, are $600 per taxpayer plus an additional $600 per dependent under age 17. The payments begin to phase-out based on a taxpayer's federal adjusted gross income. For taxpayers filing single, the credit begins to phase out at $75,000 and those over $87,000 are not eligible. For married taxpayers filing a joint return, the credit begins to phase out at $150,000 and those over $174,000 are not eligible. For taxpayers filing as head of household, the credit beings to phase out at $112,500 and those over $124,500 are not eligible.

The third stimulus payments were issued in March 2021 and are $1,400 per taxpayer plus an additional $1,400 per dependent. However, the income limits for eligible taxpayers were reduced. Taxpayers filing as single with adjusted gross income over $80,000 are not eligible. Taxpayers filing as married filing a joint with an adjusted gross income over $160,000 are not eligible. Taxpayers filing as head of household with an adjusted gross income of $120,000 are not eligible.

DOR estimates that single returns claim an average of 1.42 children, married filing joint returns claim an average of 2.02 children, and head of household returns claim an average of 1.48 children. Table 1 shows the tax credit, income phase out, and the estimated average tax credit for Missouri taxpayers.

Table 1: Economic Impact Payments – 2nd round

Filing Status	Max Base Income	Base Credit	Credit Per Dependent	Avg. Number of Dependents *	Estimated Avg. Credit	Final Phase-Out Income (no dependents)	Final Phase Out Income (avg. # dependents)
Single	$75,000	$600	$600	1.42	$1,452.00	$87,000	$104,020
Married Filing Joint	$150,000	$1,200	$600	2.02	$2,412.00	$174,000	$198,220
HOH	$112,500	$600	$600	1.48	$1,488.00	$124,500	$142,240

*Based on tax year 2017 Missouri return data.

Based on information published by the Washington Post, the total number of expected payments for the second stimulus is 158 million and approximately 20 million of those taxpayers will be required to apply for the stimulus payment on their 2020 federal tax return in order to receive their payment. Therefore, DOR assumes that 12.7% of taxpayers nationally could have their federal tax liability lowered due to the rebate. For the purpose of this fiscal note, DOR will use the 12.7% figure as the number of Missouri taxpayers who will also receive their stimulus payments as a rebate on their tax return.

Using 2018 tax year data, the most recent complete year available, and adjusting for SB 509 (2014) and HB 2540 (2018), DOR estimated previously that this provision could reduce GR by $20,408,809.

DOR reviewed this projection and realized that it used 12.7% of all tax filers instead of just the 12.7% of those that claim the FIT deductions. This resulted in an overestimation of the amount that would be impacted. The new projection is estimated to result in a loss of GR of $5,964,957 in Fiscal Year 2021 and $5,735,960 in Fiscal Year 2022.

DOR notes this estimate only includes qualifying individuals who did not receive a direct stimulus payment. There may be more individuals who receive a partial rebate on their final return, if they were entitled to a larger direct payment than what was originally received. Therefore, this proposed legislation could decrease TSR by more than the estimate shown above.

For the purpose of this fiscal note, DOR assumes that all of the second round of stimulus payments will be claimed on the 2020 federal tax return and impact Missouri's 2020 tax year returns (being filed starting in January 2021). DOR is unable to predict if any additional economic stimulus payments will be issued by the IRS during the 2021 tax year.

Therefore, DOR assumes this proposed legislation may reduce TSR and GR by an amount that could exceed $5,964,957 in Fiscal Year 2021 and $5,735,960 in Fiscal Year 2022. This proposed legislation may reduce TSR and GR by an amount greater than $5,735,960 if additional stimulus payments are issued in Fiscal Year 2022. This proposed legislation is assumed to not have an impact beyond Fiscal Year 2022.

Oversight notes the estimate(s) provided by B&P and DOR were calculated using an internal tax model that contains confidential taxpayer information.

Oversight notes that it **does not currently have the resources and/or access to state tax data** to produce an independent revenue estimate and is unable to verify the revenue estimates provided by B&P and DOR.

For purposes of this fiscal note, **Oversight** will report a revenue <u>reduction</u> equal to an amount that "Could exceed" the estimate(s) provided by B&P in Fiscal Year 2021 and Fiscal Year 2022.

<u>Section 620.2020 Missouri Works Annual Report</u>

Officials from the **Department of Economic Development** did not respond to **Oversight's** request for fiscal impact for this proposal.

Officials from **Office of Administration - Budget and Planning** state Section B contains an emergency clause. For the purpose of this fiscal note, B&P will assume that, if approved, these sections will take effect before the end of FY21.

This section clarifies the actions Department of Economic Development must take in the event a company fails to file their annual MO Works report in a timely manner. This section will not impact TSR or the calculation under Article X, Section 18(e).

Officials from the **Department of Revenue** state that annual reports are required to be timely filed by companies receiving benefits under the Missouri Works Program or they risk recapture of the benefits. This proposal would switch the "shall" be timely required to a "may" be timely required. This credit is handled by the Department of Economic Development and does not impact the Department of Revenue. The Department of Economic Development should provide the fiscal impact.

Oversight notes qualified companies or qualified military projects that receive benefits under the Missouri Works Program are required to file annual reports indicating the number of jobs created and retained and such other information as required by the Missouri Department of Economic Development.

Currently, if a qualified company or a qualified military project fails to file such annual report timely, the benefits and tax credits attributable to the year for which the reporting was required **are required** to be recaptured.

Oversight notes this proposed legislation states, if a qualified company fails to timely file the required annual report, the Missouri Department of Economic Development shall communicate with an employee that is separate from the original point of contact to inform the qualified company of the failure to timely file the annual report.

Oversight notes this proposed legislation states if a qualified company requests, in writing, an extension within thirty days of the deadline to file the annual report, the Missouri Department of Economic Development **shall** grant one thirty-day extension beginning on the date that the Missouri Department of Economic Development received the request.

Oversight notes this proposed legislation states that the failure to submit the annual report by the end of the extension **shall** result in the forfeiture of the tax credits and a recapture of withholding tax.

Oversight notes both qualified companies **and** qualified military projects are required to file the annual report. However, this proposed legislation specifically allows a "qualified company" to request, and be granted, an extension. Oversight notes Section 620.2005 identifies a "Qualified Company" and a "Qualified Military Project" individually and separately.

Therefore, as written, **Oversight** assumes only qualified companies would be allowed to request, and be granted, an extension to file the required annual report.

Oversight assumes, then, this proposed legislation **could** result in a lesser amount of Missouri Works Program benefits being recaptured in future years should qualified companies request, and be granted, one thirty-day extension to file the required annual report and successfully file such report by the end of the extension.

Based on information received from the Missouri Department of Economic Development (DED), DED has recaptured the following amount(s) as the result of the failure to timely file the required annual reports by qualified companies or qualified military projects:

Tax Year	Due In	Amount Recaptured	Number of Projects
2017	2018	$61,356	2
2018	2019	$289,535	2
2019	2020	$715,899	4

Oversight notes current statute does not specifically state where recaptured Missouri Works Program benefits are to be deposited. For purposes of this fiscal note, Oversight will assume recaptured amount(s) are deposited into General Revenue (GR).

For purposes of this fiscal note, **Oversight** will report a revenue reduction to GR equal to a range beginning at $0 (annual reports continue to be filed timely and/or the amount of benefit that would currently be recaptured is still recaptured) "up to or could exceed" $715,899 (the most recent amount recaptured – amount(s) not recaptured as a result of the extension created) beginning in Fiscal Year 2022.

Oversight notes this proposed legislation states a qualified company that had an annual report due between January 1, 2020 and September 1, 2021 shall **not** be subject to the forfeiture of tax credits attributable to the year for which the reporting was required or the recapture of withholding taxes retained by the qualified company or qualified military project during such year so long as the annual report is filed with the Missouri Department of Economic Development by November 1, 2021.

Oversight notes, based on the information provided by DED, $715,899 has already been recaptured as the result of the failure to timely file the required annual report that was due in Calendar Year 2020. Oversight assumes the amount(s) recaptured fall within the "exemption period".

Oversight notes it is unclear whether the Missouri Department of Economic Development would be required to "give back" the amount(s) already recaptured for the failure to timely file the annual report due in Calendar Year 2020 and any amounts potentially recaptured during the applicable period in of Calendar Year 2021.

For purposes of this fiscal note, **Oversight** will report a revenue reduction to GR equal to a range beginning at $0 (DED is **not** required to "give back" the amount of benefits already recaptured in Calendar Year 2020 and all other annual reports are filed timely) "up to or could exceed" $715,899 (the total amount recaptured for Calendar Year 2020 [and any amount potentially recaptured in Calendar Year 2021] **is** given back to the qualified company and any amount that would have otherwise been recaptured as the result of the failure to timely file the annual report) in Fiscal Year 2022.

Oversight notes section 620.2020 has an emergency clause.

FISCAL IMPACT – State Government	FY 2021 (10 Mo.)	FY 2022	FY 2023
GENERAL REVENUE FUND			
Revenue Gain – City of St. Louis & Kansas City - calculation of deductions relating to earnings tax - §92.111 - p. 3-5	Could exceed $373,548	$0 to Unknown	$0 to Unknown
Revenue Gain - City of St. Louis calculation of deductions relating to earnings tax - §92.117 - p. 6-7	$0 to Unknown	$0 to Unknown	$0 to Unknown
Revenue Reduction - from income tax exemption for taxpayers younger than 23 §143.088 - p. 8-11	More than or Less than ($43,294,163 to $52,639,767)	More than or Less than ($102,991,295 to $125,241,735)	More than or Less than ($102,740,839 to $124,988,859)
Revenue Reduction - Exclusion/Add-Back of Qualifying Economic Stimulus Payments - §143.121 & 143.171 - p. 11-17	Could exceed ($5,986,325)	Could exceed ($5,759,530)	$0
Revenue Reduction – Reduction of Recaptured Missouri Works Benefits as a Result of Extension Created - §620.2020 - p. 17-19	$0 up to or could exceed ($715,899)	$0 up to or could exceed ($715,899)	$0 up to or could exceed ($715,899)
Revenue Reduction – Potential "Pay Back" of Amount(s) Already Recaptured as a Result of "Exception" Period Created - §620.2020 - p. 17-19	$0 up to or could exceed ($715,899)	$0	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**More than or Less than ($49,280,488 to $60,057,890)**	**More than or Less than ($108,750,825 to $131,717,164)**	**More than or Less than ($102,740,839 to $125,704,758)**

FISCAL IMPACT – Local Government	FY 2021 (10 Mo.)	FY 2022	FY 2023
LOCAL POLITICAL SUBDIVISIONS			
Revenue loss - City of St. Louis & Kansas City - loss in revenue from eliminating the Earnings Tax on nonresidents who telecommute or work remotely - §92.111 - p. 3-5	$0 or up to ($67,314,390)	$0 or (Unknown)	$0 or (Unknown)
Revenue loss - City of St. Louis - earned income tax exclusion for minimum wage earners - §92.117 - p. 6-7	$0	$0 or less than or more than ($4,064,108)	$0 or less than or more than ($8,747,856)
Savings - County Assessors - from no longer mailing assessment lists and/or a reduction in staff - §137.280 - p. 7-8	Unknown	Unknown	Unknown
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**$0 or Less than ($67,314,390)**	**$0 or More than or Less than ($4,064,108)**	**$0 or More than or Less than ($8,747,856)**

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

EARNINGS TAX

This act prohibits the City of St. Louis from imposing an earnings tax on any salaries, wages, commissions, net profits, or other compensation earned for any portion of work that is performed outside of the limits of the city. (Section 92.111)

This provision is identical to HB 1420 (2021) and is similar to SCS/SB 604 (2021) and to a provision contained in HCS/HB 394 (2021) and HCS/HB 688 (2021), HB 1294 (2021).

This act also requires the City of St. Louis to submit to the voters on the first municipal Election Day following August 28, 2021, a question of whether to exempt workers who are paid wages at the minimum wage rate from the earnings tax. (Section 92.117)

This provision is identical to HB 1419 (2021) and to a provision contained in HCS/HB 394 (2021).

PERSONAL PROPERTY TAX LISTS

This act allows a county assessor, upon request of a taxpayer, to send personal property tax lists and notices in electronic form. (Section 137.280)

INCOME TAXES

For all tax years beginning on or after January 1, 2022, this act provides that no income tax shall be imposed on the first $50,000 of income of any person who is under twenty-three years of age on the first day of the tax year. (Section 143.088)

This provision is substantially similar to HB 1292 (2021).

Current law allows a taxpayer to deduct from his or her Missouri adjusted gross income a portion of his or her federal income taxes paid, exempting federal income tax credits received for the 2020 tax year under the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act when determining the amount of federal income tax liability allowable as a deduction. This act also exempts federal income tax credits received for the 2020 tax year under the supplemental CARES Act, as well as any other federal COVID-19-related income tax credits. (Section 143.171)

Current law also requires taxpayers who itemize deductions to include any federal income tax refund amounts in his or her Missouri adjusted gross income if such taxpayer previously claimed a deduction for federal income tax liability on his or her Missouri income tax return. This act provides that any amount of any federal income tax refund attributable to COVID-19-related tax credits in the supplemental CARES ACT, as well as any other federal COVID-19-related income tax credits, shall not be included in the taxpayer's Missouri adjusted gross income. (Section 143.121)

These provisions contain an emergency clause.

These provisions are identical to HB 991 (2021) and are substantially similar to SCS/SBs 405, 522, & 428 (2021), and to a provision contained in HCS/SB 676 (2020), HCS/SS#2/SB 704 (2020), and HCS/SS/SCS/SB 570 (2020).

MISSOURI WORKS

Current law requires the Department of Economic Development to recapture Missouri Works benefits for a qualifying company that fails to timely file the annual report required by law. This act requires the Department to use multiple means of communication to contact a qualifying company that has failed to file a timely report, and to grant a thirty day extension to such company if requested. A failure to submit the report by the end of the extension shall result in the recapture of Missouri Works benefits for such qualifying company as provided under current law. A qualified company with an annual report due between January 1, 2020, and September 1, 2021, shall not be subject to the recapture of benefits for a failure to timely submit such annual report as long as such report is submitted by November 1, 2021. (Section 620.2020)

This provision contains an emergency clause.

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>

Office of Administration – Budget & Planning Division
Missouri Department of Revenue
Department of Economic Development
State Tax Commission
Economic & Policy Analysis Research Center
Jefferson County Assessor
Lincoln County Assessor
Howell County Assessor

Julie Morff
Director
April 28, 2021

Ross Strope
Assistant Director
April 28, 2021