

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3870S.01I  
 Bill No.: SB 1132  
 Subject: Taxation and Revenue - Income; Saint Louis City  
 Type: Original  
 Date: March 27, 2024

Bill Summary: This proposal modifies provisions relating to earnings taxes.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue*	Up to \$1,056,915	Up to \$1,337,131	Up to \$1,337,131
<b>Total Estimated Net Effect on General Revenue</b>	<b>Up to \$1,056,915</b>	<b>Up to \$1,337,131</b>	<b>Up to \$1,337,131</b>

\*A reduction in earnings taxes collected by St. Louis, would reduce the amount of deductions used in calculating Missouri's state income tax, thereby increasing state income tax collections (or reducing state tax refunds). The fiscal impact depends upon the number of workers (taxpayers) telecommuting or working remotely in St. Louis City. Work circumstances in future years may differ substantially from 2020/2021.

<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>Up to (\$98,399,518)</b>	<b>Up to (\$98,399,518)</b>	<b>Up to (\$98,399,518)</b>

\*The fiscal impact depends upon the number of workers (taxpayers) telecommuting or working remotely in St. Louis City. Work circumstances in future years may differ substantially from 2020/2021.

## FISCAL ANALYSIS

### ASSUMPTION

#### §92.114 – City Earnings Tax on Remote Workers

Officials from the **Office of Administration - Budget and Planning (B&P)** assume this section would exempt nonresident workers of Kansas City and St. Louis City from their 1% earnings tax, for work done remotely. The proposal would begin with all tax returns filed after January 1, 2025. B&P notes that such tax returns would be for tax year 2024 earnings.

B&P notes that currently Kansas City is already exempting nonresident remote workers from the earnings tax for the days that nonresident employee 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. B&P is unable to determine the number of working days that nonresidents work remotely; therefore, the estimates below reflect the maximum amount of revenue impacts to St. Louis City and state general revenue. Actual revenue impacts per year may vary depending on the level of actual remote work that occurs.

Based on data published by the U.S. Census Bureau<sup>1</sup>, there were 217,930 workers within St. Louis City, of which 52,359 also lived within the city and 165,571 reside elsewhere. In addition, there were 108,484 residents in the city that work full-time. Based on the data above, B&P estimates that 56,125 of those residents work outside of the city. Table 1 shows the work and residency location for St. Louis City earnings taxpayers.

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>

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

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 60.4% ((130,873+34,698)/274,055) of the earnings tax comes from non-residents. 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.

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
St. Louis City	St. Louis City	47.8%	\$77,778,356
Outside Missouri	St. Louis City	12.7%	\$20,621,162

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 up to \$98,399,518 (\$77,778,356 MO residents + \$20,621,162 non-state residents), if all work were completed remotely.

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. 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 \$22,019,052 to \$27,856,904 [(\$77,778,356 Missouri residents x 28.3%) + (\$0 to \$20,621,162 non-Missouri residents x 28.3%)] in deductions would no longer be claimed on Missouri's individual income tax.

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 less than \$1,056,915 to \$1,337,131 in FY25. Once SB 3 (2022) has fully implemented, this provision could increase TSR and GR by \$990,857 to \$1,253,561 annually.

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

This provision may reduce St. Louis City earnings tax revenue by less than (\$98,399,518) in FY25 and beyond. Table 2 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)	
	Low	High	Low	High	Low	High	Low	High
4.80%	\$1,056,915	\$1,337,131	\$1,056,915	\$1,337,131	\$1,056,915	\$1,337,131	\$1,056,915	\$1,337,131
4.70%			\$1,034,895	\$1,309,274	\$1,034,895	\$1,309,274	\$1,034,895	\$1,309,274
4.60%					\$1,012,876	\$1,281,418	\$1,012,876	\$1,281,418
4.50%							\$990,857	\$1,253,561

B&P notes that these estimates do not include any potential impacts on the payroll tax. If remote work is also excluded from the payroll tax, the actual revenues impact to St. Louis City and the state could be significantly greater.

**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.

Officials from the **Department of Revenue (DOR)** assume this section places additional restrictions on the City of St. Louis in order to maintain their 1% earnings tax. This proposal requires they must file quarterly reports on the activity of their earnings tax. Those reports must be on their website and sent to the Missouri General Assembly.

Additionally, this proposal states that starting January 1, 2025, any work done in the city, cannot include work done by telecommuting or remote when calculating the tax owed. St. Louis City has been charging taxpayers that work in St. Louis City, the 1% earnings tax even if their work is done remotely outside the city. Based on information gathered, St. Louis City can expect a loss in revenue when they implement this proposal.

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, DOR notes 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 from individuals was \$162,872,000. For the purpose of this fiscal note, DOR will assume that the earnings tax is equally distributed among residents and non-residents, though recognize that this could underestimate the impact due to higher incomes tend to move out of the city. Therefore, DOR estimates that 60.4% of the earnings tax comes from 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

This proposal would still require all residents to pay the tax because they are residents. However, DOR estimates that St. Louis City could have a reduction in tax collected of \$98,399,518 (\$77,778,356 MO residents + \$20,621,162 non-state residents), if all work were completed remotely. Since DOR is unable to distinguish any further which hours are worked remotely vs those worked in the City, DOR will show the impact as Up to the maximum calculated (all working remotely).

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. DOR's 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. DOR also notes that a few of the taxpayers that live outside Missouri may not owe any Missouri individual income tax. However, DOR is unable to determine how many that will be and will assume all are required to file.

Given, the estimate of tax no longer owed to the City of St. Louis, DOR estimates that \$22,019,052 to \$27,856,904 [(\$77,778,356 Missouri residents x 28.3%) + (\$0 to \$20,621,162 non-Missouri residents x 28.3%)] fewer deductions would be claimed for tax year 2025.

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%. DOR will show the impact of this proposal over the SB 3 triggers.

Table 3: Estimated Revenue Gain by Fiscal Year

	Tax Year (Fiscal Year)							
Tax Rate	2024 (FY25)		2025 (FY26)		2026 (FY27)		2027 (FY28)	
	Low	High	Low	High	Low	High	Low	High
4.80%	\$1,056,915	\$1,337,131	\$1,056,915	\$1,337,131	\$1,056,915	\$1,337,131	\$1,056,915	\$1,337,131
4.70%			\$1,034,895	\$1,309,274	\$1,034,895	\$1,309,274	\$1,034,895	\$1,309,274
4.60%					\$1,012,876	\$1,281,418	\$1,012,876	\$1,281,418
4.50%							\$990,857	\$1,253,561

This proposal assumes there is no change in the earnings tax for businesses.

Officials from the **City of St. Louis** state the following:

The proposed legislation would eliminate the Earnings Tax on non-residents of the City who telecommute or work remotely. While there is no definitive total of the portion of the Earnings Tax this would represent, it is estimated that 50% or more of Earnings Tax receipts come from non-residents, the subset of these who telecommute particularly in recent years could be substantial.

The Earnings Tax is the City's single largest source of revenue amounting to over a third of the General Fund budget. Total net receipts in FY23 were just under \$219M. As the proposed legislation would eliminate the tax on all telecommuters, the potential loss of City revenue could be substantial - delivering a major blow to the City's credit and fiscal condition and seriously impairing the City's ability to provide basic City services.

As a way of illustration - 1/2 of the City Earnings tax receipts are:

More than:

- The total FY24 general fund budget of the Police Department @ \$164.4M

Or about the equivalent to the combined costs of these services:

- Fire Department - \$74.1M
- Corrections and Juvenile Detention - \$53.3M

- Circuit Court / Circuit Attorney / Sheriff - \$33.3M
- Forestry Division - Trimming / Weed & Debris - \$9.3M
- Park Maintenance - \$10.6M
- Street Maintenance & Repair - \$9.7M
- Traffic & Street Lighting - \$11.7M
- Equipment Services Div. - vehicle maintenance / repair - \$19.4M

In addition to General Revenue, there would be a similar negative impact on all TIF funded developments which utilize a portion of the Earnings Tax in financings, an amount which totaled \$6.1M in FY23.

The proposed legislation also imposes certain reporting requirements on the City's Collector of Revenue which may impose additional administrative costs on the office and could be subject to provisions of Article X Section 21 of the Missouri Constitution.

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

Officials from the **Office of the State Courts Administrator** 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.

In response to similar legislation from this year, Perfected HB 1516, officials from the **Department of Labor and Industrial Relations**, the **Office of the State Auditor**, the **Missouri Senate** and the **Missouri House of Representatives** each assumed 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.

In response to similar legislation from this year, Perfected HB 1516, the **Office of the Secretary of State (SOS)** noted 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.



<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
<b>GENERAL REVENUE</b>			
<u>Savings</u> – calculation of deductions relating to earnings tax §92.114	<u>Up to</u> <u>\$1,056,915</u>	<u>Up to</u> <u>\$1,337,131</u>	<u>Up to</u> <u>\$1,337,131</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>Up to</u></b> <b><u>\$1,056,915</u></b>	<b><u>Up to</u></b> <b><u>\$1,337,131</u></b>	<b><u>Up to</u></b> <b><u>\$1,337,131</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 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 telecommute or work remotely §92.114	<u>Up to</u> <u>(\$98,399,518)</u>	<u>Up to</u> <u>(\$98,399,518)</u>	<u>Up to</u> <u>(\$98,399,518)</u>
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>Up to</u></b> <b><u>(\$98,399,518)</u></b>	<b><u>Up to</u></b> <b><u>(\$98,399,518)</u></b>	<b><u>Up to</u></b> <b><u>(\$98,399,518)</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 act provides that the City of St. Louis shall not continue to impose an earnings tax without submitting a quarterly report detailing receipts from the earnings tax, as described in the act. Such report shall be posted on the main webpages of the website of the city and the collector of revenue, and shall also be submitted to the State Auditor, the Secretary of the Senate, the chair of the Senate Appropriations Committee, the Clerk of the House of Representatives, and the chair of the House of Representatives Budget Committee.

For all tax returns filed on or after January 1, 2025, this act also provides that the term "work done or services performed or rendered in the city" shall not include any work or services performed or rendered through telecommuting or otherwise performed or rendered remotely unless the location where such remote work or services are performed is located in the city. The

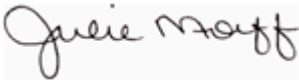
act creates a cause of action for a taxpayer who is denied a refund for taxes paid for work or services not performed or rendered in the city.

By no later than September 30, 2024, the city shall establish a process for taxpayers to request a refund for any earnings tax levied on work or services performed or rendered through telecommuting or otherwise performed or rendered remotely, unless the location where such remote work or services were performed is located in the city, which shall include a sample reimbursement form that is accessible to taxpayers on the city's website.


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  
City of St. Louis  
Department of Revenue  
Department of Labor and Industrial Relations  
Office of the State Auditor  
Missouri Senate  
Missouri House of Representatives  
Office of the Secretary of State  
Office of the State Courts Administrator



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