

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3759S.01I  
 Bill No.: SB 870  
 Subject: Taxation and Revenue - Income  
 Type: Original  
 Date: January 18, 2022

Bill Summary: This proposal eliminates the bottom two income tax brackets.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue	(\$45,257,972 - \$45,647,894)	(\$108,102,946 - \$108,552,156)	(\$108,057,600 - \$108,685,831)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$45,257,972 - \$45,647,894)</b>	<b>(\$108,102,946 - \$108,552,156)</b>	<b>(\$108,057,600 - \$108,685,831)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
<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 2023</b>	<b>FY 2024</b>	<b>FY 2025</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 2023</b>	<b>FY 2024</b>	<b>FY 2025</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 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal will impact the calculation under Article X, Section 18(e).

**B&P** states beginning with tax year 2023, this proposal would eliminate the individual income tax on taxable income up to \$2,000, as adjusted for inflation under Section 143.011.4, RSMo.

Based on current revenue forecasts and average revenue growth, B&P estimates that revenues in FY24 and FY25 will reach the SB 509 (2014) growth trigger requirement for reductions to the top rate of tax. In addition, revenues in FY26 and FY27 will reach the growth trigger requirement for reductions to the top rate of tax. Therefore, the top rate of tax is estimated to be reduced by 0.1% in tax years 2025, 2026, 2027, and 2028 under SB 509 (2014) and SB 153 (2021). B&P also notes that per SB 153 (2021) there will be a 0.1% reduction in the top rate for tax year 2024.

Using 2019 tax year data, the most current complete year available, and accounting for the changes in individual income tax law created by SB 509 (2014) and SB 153 (2021), B&P estimates that this section may reduce TSR and GR by \$108,685,431 in tax year 2023. Table 1 shows the estimated impact by calendar year.

Table 1: Rate Reduction  
by Calendar Year

Tax Year	GR Impact
2023	(\$108,685,461)
2024	(\$108,368,068)
2025	(\$109,124,646)
2026	(\$109,028,939)
2027	(\$114,503,567)
2028	(\$114,417,978)

However, because the tax reduction would take effect January 1, 2023 individuals will adjust their withholdings and declarations during FY23. Therefore, B&P estimates that this proposal could reduce TSR and GR by \$45,647,894 in FY23. Once fully SB 509 (2014) and SB 153 (2021) have fully implemented this proposal could reduce TSR and GR by \$114,417,978 annually.

Table 2: Rate Reduction  
 by Fiscal Year

Fiscal Year	GR Impact
2023	(\$45,647,894)
2024	(\$108,552,156)
2025	(\$108,685,831)
2026	(\$109,084,450)
2027	(\$111,328,283)
2028	(\$114,467,620)
2029	(\$114,417,978)

Officials from the **Department of Revenue (DOR)** state starting January 1, 2022 this would eliminate income tax on taxable income of less than \$2,000. Currently income of less than \$100 is not taxable.

The individual income tax brackets are set in statutes and are as follows:

If the Missouri taxable income is:	The tax is:
Not over \$1,000.00	1 1/2% of the Missouri taxable income
Over \$1,000 but not over \$2,000	\$15 plus 2% of excess over \$1,000
Over \$2,000 but not over \$3,000	\$35 plus 2 1/2% of excess over \$2,000
Over \$3,000 but not over \$4,000	\$60 plus 3% of excess over \$3,000
Over \$4,000 but not over \$5,000	\$90 plus 3 1/2% of excess over \$4,000
Over \$5,000 but not over \$6,000	\$125 plus 4% of excess over \$5,000
Over \$6,000 but not over \$7,000	\$165 plus 4 1/2% of excess over \$6,000
Over \$7,000 but not over \$8,000	\$210 plus 5% of excess over \$7,000
Over \$8,000 but not over \$9,000	\$260 plus 5 1/2% of excess over \$8,000
Over \$9,000	\$315 plus 6% of excess over \$9,000

This proposal eliminates the "Not over \$1,000" and "Over \$1,000 but not over \$2,000" categories. It should be noted that the current individual income tax rate is reducing in the future as a result of changes made by SB 509 (2014) and SB 153 (2021). Accounting for these changes, the Department used its internal Income Tax Model that contains confidential taxpayer data to calculate the following fiscal impact. This is estimated to result in the following loss to general revenue.

Tax Year	Amount
2023	(\$108,353,402.91)
2024	(\$107,757,076.87)
2025	(\$108,472,608.15)
2026	(\$108,319,844.10)
2027	(\$113,654,746.36)
2028	(\$113,537,536.20)
2029	(\$116,114,541.29)

The Department uses a 42%/58% split when converting individual income tax from tax years to fiscal years. This is the fiscal year projected loss.

FY	Loss to GR
2023	(\$45,257,972.29)
2024	(\$108,102,945.97)
2025	(\$108,057,600.01)
2026	(\$108,408,447.25)
2027	(\$110,560,503.05)
2028	(\$113,605,518.09)
2029	(\$114,619,878.34)

DOR would require form and programming changes to the income tax table beyond what DOR normally has to do each year. One time form and website updates estimated cost at \$3,596.

**Oversight** notes the **Department of Revenue** expects this proposal will require one-time form and website updates at an estimated cost of \$3,596. Oversight assumes DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

**Oversight** assumes JCAR will be able to administer any rules from this proposed legislation with existing resources.

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.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposed legislation. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process.

**Oversight** notes that B&P and DOR used a 42% in first fiscal year and 58% split in the second year to convert the income tax numbers from tax year to fiscal year.

**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. Therefore, Oversight will range B&P and DOR's projected fiscal estimated impacts of this proposal.

<u>FISCAL IMPACT –</u> <u>State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
<b>GENERAL REVENUE</b>			
<u>Revenue Reduction –</u> §143.021 Income Tax Reduction	(\$45,257,972 - <u>\$45,647,894</u> )	(\$108,102,946 - <u>\$108,552,156</u> )	(\$108,057,600 - <u>\$108,685,831</u> )
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	(\$45,257,972 - <u>\$45,647,894</u> )	(\$108,102,946 - <u>\$108,552,156</u> )	(\$108,057,600 - <u>\$108,685,831</u> )

<u>FISCAL IMPACT –</u> <u>Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

Certain small businesses could pay less in income tax from this proposal.

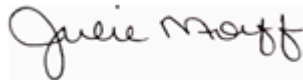
FISCAL DESCRIPTION

For all tax years beginning on or after January 1, 2023, this act provides that there shall be no tax on a taxable income of less than two thousand dollars, as adjusted under current law.

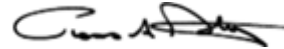
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

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



Julie Morff  
Director  
January 18, 2022



Ross Strobe  
Assistant Director  
January 18, 2022