COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0457H.10F
Bill No.: HS for HCS for SS for SCS for SB 133
Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Department of Revenue
Type: Original
Date: May 3, 2023

Bill Summary: This proposal modifies provisions relating to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY Unknown)
General Revenue	Could exceed ($236,871,192)	Could exceed ($587,145,010)	Could exceed ($588,203,451)	Could exceed ($941,916,311 to $945,951,956)
Total Estimated Net Effect on General Revenue	**Could exceed ($236,871,192)**	**Could exceed ($587,145,010)**	**Could exceed ($588,203,451)**	**Could exceed ($941,916,311 to $945,951,956)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY Unknown)
State Road Fund	($763,112 to $13,071,146)	($421,037 to $4,523,715)	($421,037 to $4,523,715)	(Unknown – could exceed $250,000)
Total Estimated Net Effect on Other State Funds	**($763,112 to $13,071,146)**	**($421,037 to $4,523,715)**	**($421,037 to $4,523,715)**	**(Unknown – could exceed $250,000)**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY Unknown)
Total Estimated Net Effect on <u>All</u> Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY Unknown)
General Revenue	0 FTE	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**0 FTE**	**1 FTE**	**1 FTE**	**1 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 2024	FY 2025	FY 2026	Fully Implemented (FY Unknown)
Local Government	**($189,781-$4,742,068)**	**($26,459,593-$27,977,022)**	**($26,459,593-$27,977,022)**	**($52,792,664)**

FISCAL ANALYSIS

ASSUMPTION

Due to time constraints, **Oversight** was unable to receive some agency responses in a timely manner and performed limited analysis. Oversight has presented this fiscal note on the best current information that we have or on information regarding a similar bill(s). Upon the receipt of agency 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.

Sections 135.010, 135.025 & 135.030 Senior Property Tax Credit

Officials from the **Department of Revenue (DOR)** note the following:

Background of Current PTC Program
This proposal makes several modifications to the Senior Property tax credit (PTC). The PTC provides two tax credits, one to homeowners and one to renters that pay property tax. In order to qualify for the PTC program there are income eligibility requirements, and a person must:

Be over the age of 65,
Or 100% disabled,
Or a 100% disabled veteran,
Or at least 60 and the qualifying widow of someone in the previous categories.

For homeowners, the PTC provides a credit to offset the amount of actual property tax paid by the homeowner. The credit is up to $1,100 in property tax actually paid but the credit amount phases out as an individual’s income rises. The homeowner’s credit is for those with incomes of less than $30,000. It should be noted, there is no limit on the number of individuals who can receive the credit annually.

The PTC also currently provides a credit to offset the amount of property tax included in a taxpayer’s rent payment. The tax credit for renters is up to $750 in property tax paid and to qualify a renter must have an income less than $27,500. The amount of the credit does phase out as income rises and there is no limit on the number of renters who can receive the credit annually.

This proposal says that all modifications of the property tax credit will begin on January 1, 2024. DOR notes that the majority of the PTC tax returns are received in their office between January and April of each year. DOR assumes that the changes made by this proposal would fully impact FY 2024.

Proposed Change
This proposal makes numerous changes to the PTC credit.

The first modification would increase the income allowance for PTC claimants by $800 for renters and $1,800 for homeowners starting with calendar year 2024. This bill impact revenue starting in FY 2025 when the taxpayer's file for their credit.

The second modification in this proposal is in Section 135.025, and will increase the credit amounts for both homeowners from $1,100 to $1,550 and for renters from $750 to $1,055 in fiscal year 2024. Additionally, beginning in calendar year 2025 this proposal will allow that new credit amount to be adjusted for inflation in future fiscal years. DOR uses a 2% inflation rate annually for estimating the increase in the credit. The new credit amount are estimated to be:

PTC Credit Increase

Tax Year	Renters	Homeowners
Current	$750	$1,100
2024	$1,055	$1,550
2025	$1,076	$1,581
2026	$1,098	$1,613
2027	$1,120	$1,645

*Assumes 2% average annual inflation, starting with tax year 2025.

The third modification of the proposal is found in Section 135.030.1, and will increase the maximum income limit to qualify for the credit starting in 2024. Each credit has a maximum income limit that once exceeded means the taxpayer no longer qualifies for the credit. Currently homeowners can have an income up to $30,000 while renters can have up to $27,500. This proposal will increase those amounts starting in tax year 2024. Then beginning in calendar year 2025, this proposal will allow the income limits to be inflation adjusted in future fiscal years.

Maximum Income

Calendar Year	Renter	Homeowner
Current	$27,500	$30,000
2024	$38,200	$42,200
2025	$38,964	$43,044
2026	$39,743	$43,905
2027	$40,538	$44,783

*Assumes 2% average annual inflation, starting with tax year 2025.

This proposal in section 135.025.2 would increase the phase-out income increments from the current $300 to $495 with calendar year 2024.

Homeownership
In order to run their calculations DOR first had to determine how many taxpayer's file as a homeowner or a renter. DOR used their internal individual income tax system to pull the current PTC claimants and determine the percentage of homeowners and renters. While DOR recognizes that as incomes increase there could be more homeowners at the higher rate, for the simplicity of the fiscal note DOR will hold the rates steady.

PTC Homeowner vs. Renter

Filing Type	Homeowner	Renter
Age 65+	65.1%	34.9%
Widow(er)	70.5%	29.5%
Disabled	23.1%	76.9%

<u>Impact of the Increase in the Maximum Credit and the Slower Credit Phase-Out Changes</u>

Renters
This proposal will increase the maximum credit allowed for renters from $750 to $1,055 as well as slowing down the income phase-out. DOR's PTC records indicate that in tax year 2021, there were 66,717 renters that claimed the PTC credit. Using their data DOR estimates that these two changes would reduce general revenue by $16,584,973 in fiscal year 2024 for renters. By tax year 2027 making these changes will reduce general revenue by $20,124,938.

Homeowners
This proposal will increase the maximum credit allowed of homeowners of $1,100 to $1,550. Additionally, it will slow the phase-out of the credit from its current $300 to $495. DOR's PTC records indicate that in tax year 2021, there were 64,463 homeowners that claimed the PTC credit. Using their data DOR estimates that these two changes would reduce general revenue by $18,965,756 in fiscal year 2024 for homeowners. By tax year 2027 making these changes will reduce general revenue by $23,019,486 due to the inflating maximum credit.

Summary of Maximum Credit and Slower Credit Phase-Out
Therefore these two modifications of the credit will result in the following loss to general revenue.

Table 5: Higher Credit and Slower Phase-Out

Tax Year	Fiscal Year	Renter	Homeowner	Total
2024	2024	($16,584,973)	($18,965,756)	($35,550,729)
2025	2025	($17,728,719)	($20,288,610)	($38,017,329)

2026	2026	($18,926,851)	($21,654,084)	($40,580,935)
2027	2027	($20,124,938)	($23,019,486)	($43,144,424)

Impact of the Maximum Income Limits

DOR notes that in order to determine the impact of the change in the maximum income limits, DOR used their tax year 2020 PTC filing data, and determined that if the cap had been raised, how many more taxpayers could have qualified for the credit. DOR has to calculate the renters and homeowners separately, due to the different maximum income limits being applied. Below is the yearly impact estimated for the next four fiscal years:

Renters -2024
The data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $27,500 to $38,200.

206	Qualified Widows
55,061	Age 65 & Older
5,722	Disabled
60,989	Total Income Qualifiers

Using their renter/homeowner split, DOR mentioned above, this would result in the potential new renters:

61	Qualified Widows
19,194	Age 65 & Older
4,399	Disabled
23,654	New Renters Qualifying

DOR notes that the average PTC credit for these renters would be approximately $206. Therefore, DOR assumes that the maximum income increase for renters would reduce general revenue by $4,882,612 (23,654 * $206) in FY 2024.

Renters – 2025
The data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $27,500 to $38,964.

219	Qualified Widows
58,495	Age 65 & Older
6,119	Disabled
64,833	Total Income Qualifiers

Using their renter/homeowner split, DOR mentioned above, this would result in the potential new renters:

65	Qualified Widows
20,391	Age 65 & Older
4,507	Disabled
25,160	New Renters Qualifying

DOR notes that the average PTC credit for these renters would be approximately $210. Therefore, DOR assumes that the maximum income increase for renters would reduce general revenue by $5,281,728 (25,160 * $210) in FY 2025.

Renters - 2026
The data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $27,500 to $39,743.

232	Qualified Widows
61,898	Age 65 & Older
6,476	Disabled
68,606	Total Income Qualifiers

Using their renter/homeowner split, DOR mentioned above, this would result in the potential new renters:

69	Qualified Widows
21,577	Age 65 & Older
4,979	Disabled
26,625	New Renters Qualifying

DOR notes that the average PTC credit for these renters would be approximately $232. Therefore, DOR assume that the maximum income increase for renters would reduce general revenue by $6,174,926 (26,625* $232) in FY 2026.

Renters – 2027
The data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $27,500 to $40,538.

250	Qualified Widows
65,541	Age 65 & Older
6,837	Disabled
72,628	Total Income Qualifiers

Using their renter/homeowner split, DOR mentioned above, this would result in the potential new renters:

74	Qualified Widows
22,847	Age 65 & Older
5,257	Disabled
28,178	New Renters Qualifying

DOR notes that the average PTC credit for these renters would be approximately $236. Therefore, DOR assumes that the maximum income increase for renters would reduce general revenue by $6,655,972 (28,178 * $236) in FY 2027.

Renters – Future Fiscal Years
The PTC program is modified to allow the maximum income limit and the credit amount to inflation adjust annually. Therefore this proposal will continue to have a fiscal impact beyond the fiscal note years.

Homeowners – 2024
The data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $30,000 to $42,200.

236	Qualified Widows
57,100	Age 65 & Older
6,080	Disabled
63,416	Total Income Qualifiers

Using their renter/homeowner split, DOR mentioned above, this would result in the potential new homeowners:

166	Qualified Widows
37,195	Age 65 & Older
1,405	Disabled
38,767	New Homeowners Qualifying

DOR notes that the average PTC credit for these homeowners would be approximately $478. Therefore, DOR assumes that the maximum income increase for homeowners would reduce general revenue by $18,530,603 (38,767 * $478) in FY 2024.

Homeowners – 2025
The data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $30,000 to $43,044.

255	Qualified Widows
60,826	Age 65 & Older
1,487	Disabled
62,568	Total Income Qualifiers

Using their renter/homeowner split, DOR mentioned above, this would result in the potential new homeowners:

180	Qualified Widows
39,622	Age 65 & Older
1,487	Disabled
41,289	New Homeowners Qualifying

DOR notes that the average PTC credit for these homeowners would be approximately $489. Therefore, DOR assumes that the maximum income increase for homeowners would reduce general revenue by $20,192,122 (41,289 * $489) in FY 2025.

Homeowners – 2026
The data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $30,000 to $43,905.

269	Qualified Widows
64,521	Age 65 & Older
6,780	Disabled
71,570	Total Income Qualifiers

Using their renter/homeowner split, DOR mentioned above, this would result in the potential new homeowners:

190	Qualified Widows
42,029	Age 65 & Older
1,567	Disabled
43,786	New Homeowners Qualifying

DOR notes that the average PTC credit for these homeowners would be approximately $521. Therefore, DOR assumes that the maximum income increase for homeowners would reduce general revenue by $22,814,305 (43,786 * $521) in FY 2026.

Homeowners - 2027
The data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $30,000 to $44,783.

292	Qualified Widows
68,205	Age 65 & Older
7,130	Disabled
75,627	Total Income Qualifiers

Using their renter/homeowner split, DOR mentioned above, this would result in the potential new homeowners:

206	Qualified Widows
44,429	Age 65 & Older
1,648	Disabled
46,283	New Homeowners Qualifying

DOR notes that the average PTC credit for these homeowners would be approximately $533. Therefore, DOR assumes that the maximum income increase for homeowners would reduce general revenue by $24,663,488 (46,283 * $533) in FY 2027.

Homeowners – Future Fiscal Years
The PTC program is modified to allow the maximum income limit and the credit amount to inflation adjust annually. Therefore this proposal will continue to have a fiscal impact beyond the fiscal note years.

Summary of the Maximum Income Limits
Increasing the maximum limit would reduce general revenue starting in FY 2024 by $23,413,215. It is estimated to have an impact in the future:

Higher Maximum Income Limit

Calendar Year	Fiscal Year	Renter	Homeowner	Total
2024	2024	($4,882,612)	($18,530,603)	($23,413,215)
2025	2025	($5,281,728)	($20,192,122)	($25,473,849)
2026	2026	($6,174,926)	($22,814,305)	($28,989,231)
2027	2027	($6,655,972)	($24,663,488)	($31,319,460)

Summary – Total Impact of PTC
These modifications to the Senior Property tax credit will reduce general and total state revenue as follows:

Table 6: Summary of GR Impact

	Renter		Homeowner		
Fiscal Year	Higher Income	Increased Credit	Higher Income	Increased Credit	Total GR Loss
2024	($4,882,612)	($16,584,973)	($18,530,603)	($18,965,756)	($58,963,944)
2025	($5,281,728)	($17,728,719)	($20,192,122)	($20,288,610)	($63,491,178)
2026	($6,174,926)	($18,926,851)	($22,814,305)	($21,654,084)	($69,570,166)
2027	($6,655,972)	($20,124,938)	($24,663,488)	($23,019,486)	($74,463,884)

This proposal will require DOR to make annual changes to their MO-PTC form, website and individual income tax computer system. Those costs are estimated at $7,193 per year.

Section 142.822 Motor Fuel Refund Period Change

Officials from the **Department of Revenue (DOR)** note SB 262 adopted in 2021, created a provision that would increase the motor fuel tax rate over a period of five years. At the time, motor fuel (gasoline and diesel) was taxed at $0.17 per gallon. SB 262 would allow the motor fuel rate to increase each year on July 1st until the highest rate of $0.295 was reached. At that time the motor fuel rate would remain $0.295 into the future.

The rate is currently increasing as follows:

FY Tax Rate	Refund Can Be Claimed (July to Sept)	Tax Increase	Total Motor Fuel Tax
FY 2022	FY 2023	$0.025	$0.195
FY 2023	FY 2024	$0.05	$0.220
FY 2024	FY 2025	$0.075	$0.245
FY 2025	FY 2026	$0.1	$0.270
FY 2026+	FY 2027+	$0.125	$0.295

SB 262 also contained a provision that created a refund program for highway users who did not want to pay the increased motor fuel rate. While they would still be required to pay the tax at the fuel pump, they could request from DOR that the increased amount be refunded to them. The refund period was established starting July 1- Sept 30th of the following fiscal year. Since the rate hike is for the full fiscal year (July to June) the refund period also covered that same fiscal year. In order to receive the refund a taxpayer completes a form with the statutorily required information and the extra motor fuel tax is refunded.

This proposal changes the refund period. Instead of claiming the credit from July to Sept after the fiscal year ends, this proposal moves the refund period to January 1st to April 15th of each year. Filing at this time of year, will result in refund claim forms having 2 separate motor fuel rates on them. This will start on January 1, 2024.

Timing of Refund Claims

Date of Purchase	Fuel Tax Rate	Current Refund Timing		Proposed Refund Timing	
		Date	Fiscal Year	Date	Fiscal Year
10/2021 - 12/2021	$0.025	7/2022 - 9/2022	FY 2023	7/2022 - 9/2022	FY 2023
1/2022 - 6/2022	$0.025	7/2022 - 9/2022	FY 2023	7/2022 - 9/2022	FY 2023
7/2022 - 12/2022	$0.050	7/2023 - 9/2023	FY 2024	1/2023 - 4/2023	FY 2024
1/2023 - 6/2023	$0.050	7/2023 - 9/2023	FY 2024	7/2023 - 9/2023	FY 2024
7/2023 - 12/2023	$0.075	7/2024 - 9/2024	FY 2025	1/2024 - 4/2024	FY 2024
1/2024 - 6/2024	$0.075	7/2024 - 9/2024	FY 2025	1/2025 4/2025	FY 2025
7/2024 - 12/2024	$0.100	7/2025 - 9/2025	FY 2026	1/2025 - 4/2025	FY 2025
1/2025 - 6/2025	$0.100	7/2025 - 9/2025	FY 2026	1/2026 - 4/2026	FY 2026
7/2025 - 12/2025	$0.125	7/2026 - 9/2026	FY 2027	1/2026 - 4/2026	FY 2026
1/2026 - 6/2026	$0.125	7/2026 - 9/2026	FY 2027	1/2027 - 4/2027	FY 2027
7/2026 - 12/2026	$0.125	7/2027 - 9/2027	FY 2028	1/2027 - 4/2027	FY 2027

This proposal will not result in any additional gains or losses to the motor fuel funds than what was projected in SB 262. It changes the timing of the refunds and not who or how many taxpayers may qualify for the refund. How much of the refunds will now shift to another fiscal year (refund period) is shown below.

DOR notes that the first refund period was completed from July 2022 to September 2022 for the increase that occurred from October 1, 2021 to June 30, 2022. That increase was $0.025. So it will not be impacted. DOR records indicate $423,947 in refunds were claimed, while receiving an additional $70,621,241 from the increased motor fuel rate. Therefore, DOR refunded approximately 0.6% ($423,947/$70,621,251) of the additional revenue.

DOR had done revenue estimates for SB 262, that DOR updated using the FY 2022 motor fuel gallons sold data for this fiscal note. Additionally, for SB 262 DOR had assumed a low range of refunds at 15% (based on another state with a similar program). DOR assumes that given the increasing price of the fuel tax and current economic conditions, more than the 0.6% refunds currently requested could be received in the upcoming fiscal years. For this fiscal note DOR is showing the refund claims ranging from the current 0.6% to the 15% under SB 262 for the shift in the refund period.

Estimated Cash Flow Impact from Refund Claim Due Date Timing

	FY 2024		FY 2025		FY 2026	
State Fund	Low	High	Low	High	Low	High
State Road Fund	($513,112)	($12,821,146)	($171,037)	($4,273,715)	($171,037)	($4,273,715)
Local Funds						
CART	($84,347)	($2,107,586)	($28,116)	($702,529)	($28,116)	($702,529)
Other	($105,434)	($2,634,482)	($35,145)	($878,161)	($35,145)	($878,161)
Total Local	($189,781)	($4,742,068)	($63,260)	($1,580,689)	($63,260)	($1,580,689)

This proposal will result in the Department needing to change their forms and their computer program to accept more than one tax rate at a time. This is estimated to cost $10,000. Having more than one motor fuel rate on the refund claim form may slow down the processing of the forms. DOR needs one Associate Customer Service Representative ($32,100) for every 6,000 claims processed at a single rate per year. Additionally, their records indicate the average time to process a refund request was 19 days. If it is determined that additional FTE are needed to help process the refunds, DOR will seek those through the appropriation process.

Currently, taxpayers are allowed to submit these forms electronically or mailed to DOR on paper. Should they be mailed to DOR separately than their tax return, DOR assumes no additional impact. However, if a taxpayer mails their claim form with their individual income tax return, this could slow down the processing of the returns and require additional temporary staff ($12,750) to help sort out those claim forms.

SB 262 requires all refund requests to be processed within 45 days or DOR must pay interest on the claim. Should moving the deadline result in slower processing time, then this could result in an unknown amount of interest being paid.

SB 262 adopted in 2021 required the following information in order for a taxpayer to receive the refund.

The application required:

The VIN number of the vehicle that bought the fuel
Date of sale of the fuel
Name and address of the purchaser of fuel
Name and address of the seller of the fuel
Number of gallons purchased
Number of gallons purchased and charged Missouri fuel tax

These records were to be maintained a minimum of three years for the Department to be able to do audits if needed.

This proposal changes the required information needed for claiming a refund. It removes the vehicle identification number, date of sale, and name and address of the seller as required information.

The Department notes that due to the changing of the deadline of claiming the refund established in this proposal, DOR must have the date of sale of the motor fuel to calculate the refund. Without it, DOR would have to refund all the gallons at the highest rate assessed in the calendar year. This could result in and Unknown but expected to exceed $250,000 in additional refunds paid out annually.

In SB 262 the Department noted by receiving the originally required data the Department would ensure that each purchase was made in Missouri and charged the appropriate motor fuel tax and be able to ensure the same gallons were not reported by more than one vehicle. The Department would be able to audit to ensure more refunds were not paid out than actually purchased.

The changes proposed in this bill may increase the original refund estimates. No longer requiring proof of the vehicle or the name and address of the seller, may allow taxpayers to report gallons purchased in other states in their total gallons purchased. This could result in additional refunds paid out than actual motor fuel tax received.

No longer requiring that taxpayers keep records, may result in the Department being unable to audit records to ensure the appropriate number of gallons were refunded.

The Department is unable to determine the potential increased refunds that could be paid out under this proposal. It is unknown but could be expected to exceed $100,000 annually.

<u>Section 143.071 Corporate Tax Rate Reduction</u>

Officials from the **Department of Revenue (DOR)** note the current corporate tax rate is 4% a year. The FY 2022 net collections were $711.1 million. Starting January 1, 2024 this proposal will reduce the corporate tax rate to 2% for tax year 2024. Since this proposal is effective January 1, 2024 it is assumed only 6 months of collections will be impacted in FY 2024.

Then starting in tax year 2026, this proposal provides that another 1% reduction can occur if the amount of revenue received in FY 2025 exceeds the FY 2024 collections by $50 million. If it does, the 1% rate reduction will occur starting the following tax year. Therefore, the earliest this reduction could occur is tax year 2026.

Additionally in Section 143.071.6, this proposal establishes a procedure by which the corporate tax rate could be reduced to zero. It says that if the FY 2027 net general revenue collections are greater than $250 million over the FY 2026 net general revenue collections then the corporate rate will be reduced to zero. At this time, the Department is unable to predict if reducing the corporate rate to 1% would increase revenue by the $250 million for the trigger.

The wording of this provision however; restricts this final reduction to tax year 2027 or it will forever stay at the 1% rate. It says "in the calendar year immediately following the calendar year in which a rate reduction is made under subsection 5". The Department estimates that the subsection 5 reduction will occur at the earliest in tax year 2026. Therefore, unless it generates the $250 trigger amount in that year, this final reduction cannot occur.

For fiscal note purposes, DOR will assume the final reduction does not occur and the rate will stay 1%. This will result in a loss to general revenue.

Corporate Rate Reduction	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
	($177,765,669)	($355,531,338)	(355,531,338)	($444,414,173)	($533,297,007)

This provision in Section 143.071.8(1) states that upon the corporate tax rate being eliminated, corporations would no longer be allowed to claim tax credits. Many of the state tax credits are allowed to be sold, transferred and assigned and it is assumed corporations would continue that practice. Additionally some companies may choose to no longer participate in tax credit programs, freeing up credits for other organizations to claim.

Per Section 148.720 whenever there is a reduction in the corporate tax rate there shall be a proportional decrease in the financial institutions tax. The financial institutions tax is currently 4.48% with 98% of it distributed to locals and 2% retained by general revenue. In FY 2022, DOR collected $53,870,066 in tax. Per Section 148.720 the reduction in the financial institutions tax is reduced in the following year. The tax rates are expected to be:

Tax Year	Corporate Rate	Financial Institutions Rate

2023 current	4.0%	4.48%
2024	2.0%	2.24%
2025	2.0%	2.24%
2026+	1.0%	1.12%

The Department used its internal Income Tax Model that contains confidential taxpayer data from the 2020 tax year (the most recent complete tax year data) to calculate the fiscal impact.

Impact to Funds from reduction:

State and Local Impact from Corporate Rate Reduction

	FY24	FY25	FY26
State Impact			
Corporate Tax Rate Reduction	($177,765,669)	($355,531,338)	($444,414,173)
Financial Institutions Tax Rate Reduction	$0	($538,701)	($538,701)
Total GR Loss	($177,765,669)	($356,070,039)	($444,952,873)
Local Impact	FY24	FY25	FY26
Financial Institutions Tax Rate Reduction	$0	($26,396,332)	($26,396,332)

This provision will result in changes needing to be made to their computer programs and forms. These changes are estimated at $7,193.

Section 143.125 Social Security Benefit Tax Exemption

Officials from the **Department of Revenue (DOR)** note this provision is changing the taxability of social security payments. Some social security benefits are taxable depending on the amount of income a person has at the federal level, while other amounts are not. Generally, at the federal level if a taxpayer's income is under $25,000 and they file as an individual or $35,000 if they file a combined return, the social security benefits are not taxable. For any income over those amounts then social security benefits are taxable and the taxable portion is calculated into the taxpayer's federal adjusted gross income (FAGI).

Under Missouri law, if social security benefits are included in a taxpayer's FAGI, and the taxpayer's MAGI is over $85,000 for an individual or $100,000 for those that file combined, their social security is taxable in Missouri. If a taxpayers has a MAGI of less than $85,000 for an individual or $100,000 for those filing combined, then they are allowed to deduction up to the social security maximum from their Missouri taxable income.

The maximum social security benefits a person receives is based on when they start to take the social security benefits and how much they paid into the system through the years. A person can take early social security benefits at 62 receiving a lesser amount of benefits. Social security benefits are considered full benefits starting at age 67, based on the year of a person's birth. The maximum social security benefits are given when a person does not take social security until they reach 70. The maximum social security benefit for 2023 is $43,524. It should be noted that social security annually adjusts the benefit numbers.

This provision starting January 1, 2024, will remove the MAGI limitation determining the taxable portion of social security. If a taxpayer included any portion of their social security benefits into their FAGI they will be allowed a deduction from their Missouri return up to the $43,524 limit of what they claimed in the FAGI.

While currently SB 3 adopted in 2022 set the individual income tax rate at 4.95% in tax year 2023 with the rate scheduled to continue to reduce over a period of several year. For fiscal note purposes, DOR will show the loss at each of the individual income tax rates for the implementation period. This will result in a loss to general revenue. DOR estimates the loss to general revenue:

Estimated Loss of Social Security Benefits					
Retirement Income	4.95%	4.8%	4.7%	4.6%	4.5%
Social Security	($159,154,945)	($154,332,068)	($151,116,816)	($147,901,565)	($144,686,314)

Therefore it could result in a loss to general revenue.

This provision will require modification to the MO-1040, MO-A and the MO-1040P forms. Additionally DOR will need to modify their website and their individual income tax computer system. These changes are estimated to cost $7,193.

At this time, the Department believes it can handle this work with existing resources. However, should DOR reach the number of errors or correspondence to justify additional FTE from this proposal or in combination with other proposals that will pass, DOR will seek the required number of FTE through the appropriation process. The Department is providing the number of errors or correspondence that require additional FTE.

1 FTE Associate Customer Service Rep for every 14,700 errors created
1 FTE Associate Customer Service Rep for every 5,700 pieces of correspondence generated

Oversight notes both DOR's estimates include data from their internal Income Tax Model.

Oversight notes that it does not currently have the resources and/or access to state tax data to produce a thorough independent revenue estimate and is unable to verify the revenue estimates provided by DOR. Therefore, for the purpose of this fiscal note, Oversight will note DOR's estimated impact for this provision.

Section 143.161 Pregnant Woman Deduction

Officials from the **Department of Revenue (DOR)** note currently in statutes a person is allowed an individual income tax deduction ($1,200) for the following:

143.161.1 a dependency deduction
143.161.2 a head of household deduction
143.161.3 a stillbirth exemption.

In December of 2017, the Tax Cuts and Jobs Act passed at the federal level set the dependency deduction at zero. HB 2540 adopted in 2018, by the Missouri General Assembly, added language to the dependency deduction that makes the state deduction zero if the federal deduction is zero. Because of the language of HB 2540 the dependent deduction went to zero in 2018.

This proposal attempts to create another deduction (Section 143.161.4). This would allow a taxpayer to claim a deduction in a year in which the taxpayer gives birth to a child. The deduction would be $2,400 for each child for which the taxpayer is entitled to a dependency exemption even if the dependency exemption is zero. Therefore in 2024, a woman who gives birth to a child would be eligible to receive a $2,400 deduction for that child.

The Department notes there are approximately 71,554 children born annually in Missouri. Which would result in $171,729,600 ($2,400 deduction * 71,554 kids) being taken in deductions annually. A deduction is not a dollar for dollar reduction of revenue but is based on that tax rate in effect at the time. This proposal states it is to begin with tax years 2024 and the estimated tax rate for 2024 is 4.8%. Therefore this would result in a loss to general revenue of $8,243,021 ($171,729,600 * .048).

It should be noted that per SB 3 (2022) the tax rate is scheduled to drop in future years. The amount of revenue loss would depend on the tax rate at that time.

Tax Rate	2024 (FY25)	2025 (FY26)	2026 (FY27)	2027 (FY28)
4.8%	($8,243,021)	($8,243,021)	($8,243,021)	($8,243,021)
4.7%		($8,071,291)	($8,071,291)	($8,071,291)
4.6%			($7,899,562)	($7,899,562)
4.5%				($7,727,832)

This would be a new deduction that would need to be added to the MO-1040, to their website and to their individual income tax computer filing system. These changes are estimated at $7,193. Additionally, to prevent fraud DOR would require information on the children being claimed such as name and social security number. This would require the creation of a new form estimated at $10,000. DOR assumes DOR would need at least one Associate Customer Service Representative ($31,200) for processing these returns. Should additionally errors or correspondence be generated to require additional FTE DOR would seek those FTE through the appropriation process.

1 FTE Associate Customer Service Rep for every 14,700 errors created
1 FTE Associate Customer Service Rep for every 5,700 pieces of correspondence generated

Oversight notes this proposal begins January 1, 2024, and the tax returns claiming the deduction would be filed starting in FY 2025.

Oversight will show the fiscal impact of this proposal assuming the scheduled general revenue dependent rate reductions under SB 3 (2022) are triggered consecutively. (Top tax rate of 4.8% in 2024 (FY 2025 and 4.7% in 2025 (FY 2026)

Oversight notes B&P states the current TCJA is set to expire for tax year 2026 unless reauthorized by Congress. Therefore, Oversight will assume taxpayers may be able to take the current deduction (143.161.1) for tax year 2026 (FY 2027). Therefore, Oversight will reflect the fiscal impact in FY 2027 of the difference between the $1,200 deduction and the $2,400 deduction, ranged to the full impact if Congress extends the TCJA.

Therefore, for the purpose of this fiscal note, **Oversight** will show DOR's projected fiscal estimated impacts of this proposal throughout the implementation of the future tax rate reductions from SB 3 (2022) to show the maximum low and high impact of the proposal.

Responses regarding the proposed legislation as a whole

Oversight will show the one-time costs to update DOR's income tax system and forms estimated at $41,579 in FY 2024.

Officials from the **Missouri Department of Transportation** defer to the **Department of Revenue** for the potential fiscal impact of this proposal.

Officials from the **Office of Administration, Department of Public Safety – Highway Patrol, Department of Economic Development,** and the **Department of Commerce and Insurance** each assume 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.

FISCAL IMPACT – State Government	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY Unknown)
GENERAL REVENUE				
Revenue Reduction- §§135.010, 135.025, & 135.030 – Property Tax Credit –p. (10)	Could exceed ($58,963,944)	Could exceed ($63,491,178)	Could exceed ($69,570,166)	Could exceed ($74,463,884)
Costs - DOR – 142.822 Increased interest costs for timing change of motor fuel refunds p.(14)	Could exceed ($100,000)	Could exceed ($100,000)	Could exceed ($100,000)	Could exceed ($100,000)
Revenue Reduction - §143.071 - Corporate Income Tax Rate Reduction p. (14-15)	($177,765,669)	($355,531,338)	($355,531,338)	($711,062,676)
Revenue Reduction - §143.071 – Bank Franchise Tax Rate Reduction p. (15)	$0	($538,701)	($538,701)	($1,077,402)
Revenue Reduction - §143.125 Social Security Benefit Tax Exemption p. (16)	$0	($159,154,945)	($154,332,068)	($151,116,816)
Costs - DOR §143.161 p. (18)				
Personal Service	$0	($31,824)	($32,460)	($32,460)
Fringe Benefits	$0	($27,195)	($27,427)	($27,427)
Exp. & Equip.	$0	($0)	$0	$0
Total Costs -	$0	($85,827)	($59,887)	($59,887)
FTE Change	0 FTE	1 FTE	1 FTE	1 FTE

Revenue Loss – §143.161 - Unborn Child Income Tax Deduction– p. (18)	$0	Could exceed ($8,243,021)	Could exceed ($8,071,291)	Could exceed ($4,035,646) to ($8,071,291)
Costs - DOR – Form and Computer Updates p. (10,15,17,18)	($41,579)	$0	$0	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE	**Could exceed ($236,871,192)**	**Could exceed ($587,145,010)**	**Could exceed ($588,203,451)**	**Could exceed ($941,916,311 to $945,951,956)**
Estimated Net FTE Change on General Revenue	0 FTE	1 FTE	1 FTE	1 FTE
STATE ROAD FUND				
Cash Flow – timing of the motor fuel tax refunds – moved up to CY instead of FY (§142.822) p. (12)	($513,112 to $12,821,146)	($171,037 to $4,273,715)	($171,037 to $4,273,715)	$0
Loss – increase in fuel tax refunds due to eliminating certain required information (§142.822) p. (13)	(Unknown, could exceed $250,000)	(Unknown, could exceed $250,000)	(Unknown, could exceed $250,000)	(Unknown, could exceed $250,000)
ESTIMATED NET EFFECT ON STATE ROAD FUND	**($763,112 to $13,071,146)**	**($421,037 to $4,523,715)**	**($421,037 to $4,523,715)**	**(Unknown, could exceed $250,000)**

FISCAL IMPACT – Local Government	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY Unknown)
LOCAL POLITICAL SUBDIVISIONS				
Loss – timing of the motor fuel tax refunds – Counties (§142.822) p. (12)	($84,347 to $2,107,586)	($28,116 to $702,529)	($28,116 to $702,529)	$0
Loss – timing of the motor fuel tax refunds – Cities (§142.822) p. (12)	($105,434 to $2,634,482)	($35,145 to $878,161)	($35,145 to $878,161)	$0
Revenue Reduction - §143.071 – Bank Franchise Tax Rate Reduction p. (15)	$0	($26,396,332)	($26,396,332)	($52,792,664)
LOCAL POLITICAL SUBDIVISIONS	**($189,781-$4,742,068)**	**($26,459,593-$27,977,022)**	**($26,459,593-$27,977,022)**	**($52,792,664)**

FISCAL IMPACT – Small Business

Certain small businesses that are obligated to pay corporate or individual income taxes could be impacted by this proposal. Small businesses that purchase motor fuel could be impacted as a result of this proposal.

FISCAL DESCRIPTION

This act modifies provisions relating to taxation.

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

SOURCES OF INFORMATION

Department of Revenue
Office of Administration

KLP:LR:OD

Department of Public Safety – Highway Patrol
Department of Economic Development
Department of Commerce and Insurance

Julie Morff	Ross Strope
Director	Assistant Director
May 3, 2023	

KLP:LR:OD