COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5078-04
Bill No.: Perfected HCS for HB Nos. 1253 & 1297
Subject: Taxation and Revenue - Income; Administration, Office of
Type: Original
Date: February 19, 2014

Bill Summary: This proposal would change the laws regarding taxation by reducing the tax rate on corporate business income and the taxability of personal business income for certain tax entities.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	(More than $71,930,650 to More than $347,328,558)	($71,955,631 to $347,353,539)	($71,958,550 to $347,356,458)
Total Estimated Net Effect on General Revenue Fund	**(More than $71,930,650 to More than $347,328,558)**	**($71,955,631 to $347,353,539)**	**($71,958,550 to $347,356,458)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 24 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	7 FTE	7 FTE	7 FTE
Total Estimated Net Effect on FTE	**7 FTE**	**7 FTE**	**7 FTE**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Local Government	**($1,750,622 to $8,753,112)**	**($1,750,622 to $8,753,112)**	**($1,750,622 to $8,753,112)**

FISCAL ANALYSIS

ASSUMPTION

Section 143.013, RSMo. - Personal Business Income Exclusion:

In response to a previous version of this proposal, officials from the **Office of Administration - Division of Budget and Planning (BAP)** assumed the proposal would not result in any additional costs or savings to their organization.

This proposal would phase in a deduction of business income from individual income tax, increasing from 10% in the first year, to 50% in the final year. The deductions occur if the OA determines income tax revenues have increased relative to FY 2012. If the average payroll of a particular business exceeds 150% of the county average wage, the full 50% deduction would immediately apply.

Business Income would be defined as: income greater than zero arising from transactions and activity in the regular course of the taxpayer's trade or business and includes income from tangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations.

BAP officials estimate the annual cost of the reductions as below. If the first reduction occurs for 2015, taxpayers would adjust withholdings and declarations beginning in January 2015. This proposal could Reduce Total State Revenues in FY 2015 by an estimated $19.2 million. BAP officials note that there does not appear to be language requiring this income to be MO Source Income, so the estimates below are larger than in other similar bills.

Year 1	($53.3) million
Year 2	($106.1) million
Year 3	($158.8) million
Year 4	($211.4) million
Year 5	($264.0) million

BAP officials also noted it is very difficult to identify business income from available data. If the proportion of taxable income that is business income is greater than that estimated for this analysis, then the loss of revenues would be higher. Also, BAP officials note this analysis makes no attempt to quantify the loss of revenues that might occur if taxpayers alter their filing status to take advantage of the business income subtraction.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** provided the following response to a previous version of this proposal.

Fiscal impact

This provision would authorize a subtraction from the federal adjusted gross income of an individual taxpayer for business income to the extent it was included in federal adjusted gross income. These provisions would allow for a subtraction phased in over five years from 10 percent to 50 percent. The reduction could only occur if the sum of Missouri net individual income tax revenues and the Missouri net corporation income tax revenues are equal to or greater than the sum of Missouri net individual income tax revenues and the Missouri net corporation income tax revenues received in the fiscal year ending on June 30, 2012.

Beginning on January 1, 2014, if a business exceeds 150 percent of the county average wage in the county where the business is located, a subtraction of 50 percent of business income would be allowed for taxpayers reporting taxable income from that business.

DOR officials stated that for 2011, individual income tax filers reported $14.9 billion in "business" income on their federal Form 1040s. The Department included amounts reported on Schedule C, Schedule E, and Schedule F in the calculation. The $14.9 billion does not include returns filed by nonresidents.

Based on these figures, DOR officials estimated the following reduction in individual income tax:

First Year	$53.3 million
Second Year	$106.1 million
Third Year	$158.8 million
Fourth Year	$211.4 million
Fifth Year	$264.0 million

If any business income is subtracted at a rate of 50% for the first through fourth years in the manner provided in the proposal, the estimated annual reductions noted above may be increased or decreased. The impact on revenue would also vary due to potential reductions in withholding and estimated payments. DOR officials assume the Office of Administration - Division of Budget and Planning may have more precise estimates of the annual impact to revenue.

ASSUMPTION (continued)

Administrative impact

DOR officials assume that implementing the proposal would require additional employees. Personal Tax would require two additional Temporary Tax Employees for key entry and two additional FTE Revenue Processing Technicians for error correction and correspondence. Collections & Tax Assistance (CATA) would require two additional Tax Collection Technicians for additional contacts to the delinquent and non-delinquent tax call center and one additional Revenue Processing Technician for the tax assistance offices. Each technician would require CARES license and equipment.

The DOR estimate of cost to implement the proposal included two part-time employees and seven additional employees; with benefits, equipment, and expense, the DOR estimate totaled $301,687 for FY 2015, $313,276 for FY 2016, and $315,525 for FY 2017.

Oversight did not separate the DOR estimate of costs between the individual and corporate income tax changes. Based on the DOR responses to comparable provisions in the current session, Oversight will attribute all of the DOR cost estimate to the personal tax provisions.

Oversight assumes the additional employees would be required beginning in January, 2015 (FY 2015) when the first tax returns would be filed after the proposal is implemented.

Oversight assumes the DOR estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2015 could be reduced by roughly $6,000 per employee.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employees to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

ASSUMPTION (continued)

Officials from the **University of Missouri, Economic Policy Analysis and Research Center (EPARC)** assume this proposal would, if enacted, potentially allow individual taxpayers to subtract 50% of their "business income" from their Federal Adjusted Gross Income when determining their Missouri adjusted Gross Income.

For tax years beginning on or after January 1, 2014, the 50% "business income" subtraction would be immediately available if average payroll for the business exceeds 150% of the county average wage in the county in which the business or corporation is located. For taxpayers that do not meet this average payroll requirement, the "business income" subtraction would be phased-in gradually based upon the growth of aggregate Missouri income tax collections beyond FY 2012 levels.

EPARC officials stated they do not possess the data to discern which businesses meet the average payroll requirement, nor are they able to determine from which business any individual taxpayer derives their income.

Within these simulations we equate business income with self-employment income. We estimate each taxpayer's self-employment income by dividing each filer's self-employment tax by their applicable tax rate as reported on their Federal 1040. Doing so, we estimate aggregate positive "business income" at $7,665,049,399 for 312,404 Missouri filers.

Beginning in 2014, this legislation would require the Office of Administration to determine annually whether the sum of net corporate and individual income tax collections from the previous fiscal year is equal to or greater than the sum of net corporate and individual income tax collections from FY2012.

ASSUMPTION (continued)

In the first year that OA determines that aggregate income tax collections from the previous fiscal year are indeed equal to or greater than FY 2012, a "business income" subtraction of 10% would be allowed. In the second year that OA determines that aggregate income tax collections from the previous fiscal year are indeed equal to or greater than FY 2012, a "business income" subtraction of 20% will be allowed. In the third year that OA determines that aggregate income tax collections from the previous fiscal year are indeed equal to or greater than FY 2012, a "business income" subtraction of 30% would be allowed. In the fourth year that OA determines that aggregate income tax collections from the previous fiscal year are indeed equal to or greater than FY 2012, a "business income" subtraction of 40% would be allowed. In the fifth year that OA determines that aggregate income tax collections from the previous fiscal year are indeed equal to or greater than FY 2012, a "business income" subtraction of 50% would be allowed.

Using the latest 2012 individual income tax data as our baseline (Table 1), where Net Tax Due is equal to $5,109.439 million, we find this aggregate individual tax liability is reduced to $5,077.594 million in the first year OA determines that aggregate income tax collections from the previous fiscal year are indeed equal to or greater than FY2012 and a 10% "business income" subtraction is enacted, to $5,046.726 million in the second year when a 20% "business income" subtraction is enacted, to $5,016.882 million in the third year when a 30% "business income" subtraction is enacted, to $4,988.392 million in the fourth year when a 40% "business income" subtraction is enacted, and to $4,961.514 million in the fifth year when a 50% "business income" subtraction is enacted.

Oversight will use the EPARC simulation of fiscal impact for the personal income tax provisions in this proposal, and has summarized the EPARC simulations in the following table. Oversight notes the proposal would be effective beginning January 1, 2014 and assumes the fiscal impact would be realized beginning in January, 2015.

Oversight is aware that filers may choose to reduce their tax withholding or estimated tax payments in anticipation of reduced taxes, and assumes this could reduce revenues a year in advance of the fiscal year indicated in the table. For fiscal note purposes, however, Oversight will indicate the full fiscal impact of the tax changes beginning when income tax returns are filed for 2015 in January 2016 (FY 2016). Oversight assumes the first revenue exclusion would be implemented the first year and will indicate a range of fiscal impact from the first ten percent exclusion (no employer met the average payroll requirement) to the full 50% exclusion (all employers met the average payroll requirement).

ASSUMPTION (continued)

Year	Fiscal Year	Income Exclusion	Personal Income Tax	Revenue Reduction
Baseline			$5,109,439,000	$0
1	2015	10%	$5,077,594,000	($31,845,000)
2	2016	20%	$5,046,726,000	($62,713,000)
3	2017	30%	$5,016,882,000	($92,557,000)
4	2018	40%	$4,988,392,000	($121,047,000)
5	2018	50%	$4,961,514,000	($147,925,000)

Section 143.071, RSMo. - Corporate income tax rate reduction:

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would not result in any additional costs or savings to their organization.

BAP officials noted this proposal would reduce the corporate tax rate over five years, from 6.25% to 3.125%. The reductions would occur if the Office of Administration determines net income tax revenues have increased relative to FY 2012. If the average payroll of a particular business exceeds 150% of the county average wage, the tax rate would immediately be reduced to 3.125%.

In FY13, $360.8 million in net corporate taxes was received. Notwithstanding any inflationary growth, this proposal would reduce Total State Revenues as in the chart below. However, revenue losses in any particular year could be as much as the largest estimate below, depending on the number of corporations that meet the payroll requirements for the full rate reduction.

If the first reduction occurs for 2015, taxpayers would adjust withholdings and declarations beginning in December 2014. This proposal could reduce Total State Revenues in FY 2015 by an estimated $10.8 million.

ASSUMPTION (continued)

Year	Rate	Collections ($ Millions)	Revenue Reduction ($ Millions)
FY 2013	6.250%	$360.8	
Year 1	5.625%	$324.7	$36.1- $180.4
Year 2	5.000%	$288.6	$72.2 - $180.4
Year 3	4.375%	$252.6	$108.2 - $180.4
Year 4	3.750%	$216.5	$144.3 - $180.4
Year 5	3.125%	$180.4	$180.4

Officials from the **Department of Revenue (DOR)** provided the following response.

Fiscal impact

These provisions would reduce the Missouri corporate income tax rate from 6.25 percent to 3.125 percent over five years. The reduction could only occur if the sum of Missouri net individual income tax revenues and the Missouri net corporation income tax revenues for the preceding year are equal to or greater than the sum of Missouri net individual income tax revenues and the Missouri net corporation income tax revenues received in the fiscal year ending on June 30, 2012. Beginning on January 1, 2014, if a corporation exceeds 150 percent of the county average wage in the county where the corporation is located, the income tax rate for that corporation would be 3.125 percent.

For calendar year 2011, Missouri corporate taxpayers reported $5.8 billion in taxable income and $361.4 million in tax. Based on the estimated tax of $361.4 million, the Department estimated the following reduction in corporate income tax:

First year	$36.1 million
Second year	$72.3 million
Third year	$108.4 million
Fourth year	$144.6 million
Fifth year	$180.7 million

ASSUMPTION (continued)

If any corporation is permitted to apply the 3.125 percent tax rate for the first through the fourth years based on its average payroll rates, the revenue reductions noted above may be increased or decreased.

Administrative impact

DOR officials assume Corporate Tax would require two additional Revenue Processing Technicians for error correction and correspondence. Each technician would require CARES license and equipment.

Oversight notes these provisions would reduce the current corporate income tax rate to 3.125% over a period of five years. The proposal would not make any other changes to the Missouri corporate income tax program. Oversight assumes a rate change would not require significant administrative effort, and also assumes substantially all corporate income tax returns would be prepared by corporate officers or tax professionals. Oversight assumes these provisions could be implemented with existing DOR staff; if unanticipated additional costs are incurred or if multiple proposals are implemented that require additional DOR staffing, resources could be requested through the budget process. As discussed in our comment above regarding the personal income tax provisions, Oversight will attribute all of the DOR cost estimate to the personal income tax program and none to the corporate income tax provisions.

IT impact

DOR officials assumed the IT cost to implement this proposal would be $55,037, based on 2,016 hours of programming to make changes to DOR systems.

Oversight will include the DOR estimate of IT cost in this fiscal note.

Officials from the **University of Missouri, Economic Policy Analysis and Research Center (EPARC)** assume this proposal would, if enacted, potentially reduce the corporate tax rate to 3.125%. For tax years beginning on or after January 1, 2014, the 3.125% corporate tax rate would be immediately available for a corporation whose average payroll exceeds 150% of the county average wage in the county in which the business or corporation is located.

ASSUMPTION (continued)

For taxpayers that do not meet this average payroll requirement, the corporate tax rate reduction would be phased-in gradually based upon the growth of aggregate Missouri income tax collections beyond FY 2012 levels.

Oversight will use the EPARC simulation of fiscal impact for the corporate income tax provisions in this proposal, and has summarized the EPARC simulations in the following table. Oversight notes the proposal would be effective beginning January 1, 2014 and assumes the fiscal impact would be realized beginning in January, 2015.

Income Tax Rate	Income Tax Revenue	Revenue Reduction
6.250%	$397,939,000	
5.625%	$358,145,000	($39,794,000)
5.000%	$318,351,000	($79,588,000)
4.375%	$278,557,000	($119,382,000)
3.750%	$238,763,000	($159,176,000)
3.125%	$198,970,000	($198,969,000)

Oversight is aware that filers may choose to reduce their tax estimated tax payments in anticipation of reduced taxes, and assumes this could reduce revenues a year in advance of the fiscal year indicated in the table. For fiscal note purposes, however, Oversight will indicate the full fiscal impact of the tax changes beginning when income tax returns are filed for 2014 in January 2015 (FY 2015). Oversight assumes the first revenue exclusion would be implemented the first year and will indicate a range of fiscal impact from the first rate reduction (no business met the average payroll requirement) to the full rate reduction exclusion (all employers met the average payroll requirement) for FY 2015, FY 2016, and FY 2017.

ASSUMPTION (continued)

Section 148.720, RSMo - Financial Institution Tax Rate Reduction

This provision would authorize a corresponding and proportional reduction in Financial Institution Tax rates for years beginning on or after January 1, 2014, in which there is a reduction in the corporate tax rate.

Officials from the **University of Missouri, Economic Policy Analysis and Research Center (EPARC)** assume this proposal would, if enacted, potentially reduce the Financial Institutions Tax rate.

According to the Department of Revenue's Annual Report for FY2012, the aggregate Financial Institutions Tax collections for FY2012 was $17,863,494. These collections were generated from a tax base of $255,192,771 at a tax rate of 7%.

When the initial reduction in the corporate tax rate occurs, the financial institutions tax rate would be proportionately reduced by 10% to 6.3%. Using the same tax base of FY 2012 at a tax rate of 6.3%, we estimate collections would be approximately $16.077 million. When the second reduction in the corporate tax rate occurs, the financial institutions tax rate would be proportionately reduced to 5.6% and we estimate collections would be approximately $14.291 million. When the third reduction in the corporate tax rate occurs, the financial institutions tax rate would be proportionately reduced to 4.9%, and we estimate collections would be approximately $12.504 million. When the fourth reduction in the corporate tax rate occurs, the financial institutions tax rate would be proportionately reduced to 4.2%, and we estimate collections would be approximately $10.718 million. When the last reduction in the corporate tax rate occurs, the financial institutions tax rate would be proportionately reduced to 3.5%, and we estimate collections would be approximately $8.932 million.

ASSUMPTION (continued)

Financial Institution Tax

Oversight noted that the Department of Revenue Annual Report for FY 2012 indicated the following Bank, Credit Union, Savings and Loan, and Credit Union Taxes were collected.

Type of Financial Institution	FY 2012	FY 2011
Banks	$4,172,148	$20,060,730
Credit	$2,209,373	$1,324,013
Savings and Loan	$9,969,721	$6,528,976
Credit Unions	$1,512,252	$851,863
Totals	$17,863,494	$28,765,582

The tax rate is 7 percent of net income, and disposition of the tax is 98 percent to home political subdivisions and 2 percent to the General Revenue Fund.

Oversight also notes the provisions in Section 143.071 of this proposal would reduce the corporate income tax rate by 10% each year in which the net collections threshold is met, from 90% of the current rate in the first year to 50% of the current rate in the fifth and subsequent years. The full 50% rate reduction would be immediately available to corporations which meet the average wage requirement.

ASSUMPTION (continued)

Oversight assumes a similar process would be followed for Financial Institution Tax rates and this provision would have the following impact to local governments and the General Revenue Fund, based on FY 2012 collections.

Year	Rate Reduction	Tax Rate	Estimated Revenue	Revenue Reduction
Baseline		7%	$17,863,494	
First	10%	6.3%	$16,077,145	$1,786,349
Second	20%	5.6%	$14,290,795	$3,572,699
Third	30%	4.9%	$12,504,446	$5,359,048
Fourth	40%	4.2%	$10,718,096	$7,145,398
Fifth and Subsequent	50%	3.5%	$8,931,747	$8,931,747

For fiscal note purposes, **Oversight** will indicate a range of impact from the amount calculated for the first year to the amount calculated for the fully implemented provision.

Disposition of the Revenue and Revenue Reduction

As discussed above, 98% of the Financial Institution Tax is distributed to local governments and 2% is retained by the General Revenue Fund.

	Local Governments at 98%	General Revenue Fund at 2%
First Year Impact	$1,750,622	$35,727
Fully Implemented Impact	$8,753,112	$178,635

Finally, **Oversight** recognizes that financial institutions utilize tax credit programs which could make the eventual impact of this proposal differ from the calculated amounts; however, for fiscal note purposes, we will disregard the potential impact of tax credits.

ASSUMPTION (continued)

Bill as a whole responses

In response to a previous version of this proposal, officials from the **Office of the Secretary of State (SOS)** assume 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 Secretary of State's Office for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve 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.

Officials from the **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Office of Administration - Office of the Commissioner** deferred to the Office of Administration - Division of Budget and Planning for an estimate of the fiscal impact of this proposal.

Officials from the **Department of Economic Development** and the **Department of Insurance, Financial Institutions, and Professional Registration** assume this proposal would have no fiscal impact on their organizations.

ASSUMPTION (continued)

Amendments

Amendment 1

This amendment would add definitions for the terms "Missouri net individual income tax revenues" and "Missouri net corporate income tax revenues" which determine when an income tax rate reduction in this proposal would be applicable.

Oversight assumes this to be a technical issue with no independent fiscal impact.

Amendment 2

This amendment would exclude from the determination of net individual and corporate tax revenues any amounts received as the result of a tax amnesty program

Oversight assumes this to be a technical issue with no independent fiscal impact.

ASSUMPTION (continued)

Amendment 3

This amendment would change Section 143.221, RSMo. - Withholding Tax Filing Requirement to increase the amount of accumulated withholding tax at which an employer would be required to file and pay withholding taxes on a quarterly basis. An employer who did not meet this threshhold would be required to file on an annual basis.

In response to similar language in HB 1224, LR 4672-01, Oversight received the following responses.

Officials from the **Office of the Secretary of State (SOS)** assume 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 Secretary of State's Office for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve 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.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assumed the proposal would not result in any additional costs or savings to their organization.

BAP officials noted the proposal would increase the threshold for annual withholding filers from $20 to $100. Withholding taxes that would have otherwise been collected on a quarterly basis in April, July, and October would be delayed until January. The proposal would not directly impact Total State Revenues in the aggregate, but could have a cash flow impact across fiscal years.

ASSUMPTION (continued)

Assuming the proposal would become effective Aug. 28, 2014, quarterly payments due in October 2014 would instead be remitted in January 2015. This would have no cash effect overall for FY 2015, though timing of payments are different. However, quarterly payments due in April and July of 2015 would not arrive until January 2016. Therefore, revenue collections would be reduced in FY 2015, but the payments in FY 2016 would be increased by similar amounts. Further, similar patterns would follow in subsequent years.

Department of Revenue (DOR) officials informed BAP that about 6,500 businesses would be impacted by this proposal. BAP deferred to DOR for estimated withholding amounts.

Officials from the **Department of Revenue (DOR)** assumed the proposal would raise the quarterly aggregate amount required to file a withholding return from $20 to $100.

Fiscal impact

DOR officials assumed the proposal would not reduce Total State Revenue, but would delay the collection of withholding taxes. The legislation would impact approximately 3,500 businesses that would currently file and pay withholding in April, July, and October could now delay the remittance of their withholding taxes until January of the following year.

Assuming the state could earn a five percent rate of interest, this proposal could Reduce Total State Revenue by $17,500 annually.

Administrative impact

The DOR response did not include any estimate of administrative cost involved in implementing this proposal and **Oversight** assumes any administrative costs would be minimal and could be absorbed with existing resources.

IT impact

DOR officials provided an estimate of the IT cost to implement the proposal of $1,092 based on 40 hours of programming to make changes to DOR systems.

ASSUMPTION (continued)

Oversight assumes OA - ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA - ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA - ITSD (DOR) could request funding through the appropriation process.

Officials from the **Joint Committee on Administrative Rules** assumed the proposal would have no fiscal impact on their organization.

Oversight assumes this amendment proposal would allow certain employers to delay filing and paying withholding taxes, which are currently due on a quarterly basis, until the following January 31. The amount of tax due and the overall amount of revenue for a tax year would not change; however, implementing the amendment could delay receipt of withholding taxes as explained below.

* Taxes withheld for the third calendar quarter ending September 30, 2014 are currently filed and paid by October 31, 2014 (FY 2015); the proposal would include those taxes in an annual filing due January 31, 2015 (FY 2015). Those taxes would be received in the same fiscal year as currently required, although filing and payment of those funds would be delayed three months. For fiscal note purposes there would be no impact from that delay.

* Taxes withheld for the fourth calendar quarter ended December 31, 2014 would be paid January 31, 2015 (FY 2015) as currently required.

* Taxes withheld for the first calendar quarter ending March 31, 2015 would currently required to be filed and paid by April 30, 2015 (FY 2015). The proposal would include those taxes in an annual filing due January 31, 2016 (FY 2016). That delay would be permanent, as each year's first quarter withholding taxes would be paid the following state fiscal year.

* Taxes withheld for the calendar quarters ending June 30, 2015 currently required to be filed and paid by July 31, 2015 and September 30, 2015 currently required to be filed and paid by October 31, 2015 (FY 2016) would be paid by January 31, 2016 (FY 2016). Those taxes would also be paid in the same fiscal year as currently required but would be delayed six months and three months, respectively, as compared to current requirements.

ASSUMPTION (continued)

* Based on the number of filers provided by the Department of Revenue, the amount of first calendar quarter withholding taxes delayed over the end of a state fiscal year could range from (3,500 filers x the current $20 threshold) = $70,000 to (3,500 filers x the new $100 threshold) = $350,000.

For fiscal note purposes, **Oversight** will indicate an unknown revenue reduction for FY 2015 due to first calendar quarter withholding taxes which would be remitted in January, 2016 (FY 2016) rather than April 2015 (FY 2015).

FISCAL IMPACT - State Government	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE FUND			
Additional revenue - previous year withholding taxes paid Section 143.221, RSMo	$0	Unknown	Unknown
Revenue reduction - delayed filing and payment of withholding taxes Section 143.221, RSMo	(Unknown)	(Unknown)	(Unknown)
Cost - Department of Revenue			
Salaries	($82,740)	($165,480)	($167,135)
Temporary employees	($7,800)	($15,756)	($15,914)
Benefits	($46,180)	($92,439)	($93,364)
IT costs	($55,037)	$0	$0
Equipment and expense	($64,166)	($7,229)	($7,410)
Total cost - Department of Revenue	($255,923)	($280,904)	($283,823)
FTE change - DOR	7 FTE	7 FTE	7 FTE
Revenue reduction - DOR Corporate income tax rate reduction Section 143.071	($39,794,000 to $198,969,000)	($39,794,000 to $198,969,000)	($39,794,000 to $198,969,000)
Revenue reduction - DOR Financial Institutions Tax rate reduction Section 148.720	($35,727 to $178,635)	($35,727 to $178,635)	($35,727 to $178,635)
Revenue reduction - personal business income exclusion Section 143.013	($31,845,000 to $147,925,000)	($31,845,000 to $147,925,000)	($31,845,000 to $147,925,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**(More than $71,930,650 to More than $347,328,558)**	**($71,955,631 to $347,353,539)**	**($71,958,550 to $347,356,458)**
Estimated FTE effect on General Revenue Fund	7 FTE	7 FTE	7 FTE

SAS:LR:OD

FISCAL IMPACT - Local Government	FY 2015 (10 Mo.)	FY 2016	FY 2017
LOCAL GOVERNMENTS			
Revenue reduction - DOR Financial Institutions Tax rate reduction Section 148.720	($1,750,622 to $8,753,112)	($1,750,622 to $8,753,112)	($1,750,622 to $8,753,112)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**($1,750,622 to $8,753,112)**	**($1,750,622 to $8,753,112)**	**($1,750,622 to $8,753,112)**

FISCAL IMPACT - Small Business

This proposal would reduce Missouri income taxes for small businesses and their owners.

FISCAL DESCRIPTION

This proposal would create the Broad-Based Tax Relief Act of 2014 that would reduce the corporate business income and Financial Institutions Tax rates, and would provide an exclusion from tax for business income for sole proprietors, partners, and shareholders in S-corporations.

For all years beginning on or after January 1, 2014, the amount of business income subject to tax would be determined by the Office of Administration, by comparing net individual and corporation income tax revenue received in the fiscal year ending on June 30, 2012, to the Missouri net individual and corporation income tax revenues received in the fiscal year ending on June 30 of the tax year before the tax year of determination. If the comparison shows a reduciton from 2012 results, the percentage of business income to be taxed would not change until such time as the comparison shows income tax revenues to be equal to or greater than 2012.

Once the comparison shows the revenues to be equal to or greater than 2012 revenues, business income would be taxed at 90% for the year following the determination; then each year for which the comparison shows income tax revenues to be equal to or greater than for 2012, business income would be taxed at 80%, then 70%, then 60%, and then 50% for subsequent years.

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FISCAL DESCRIPTION (continued)

For all years beginning on or after January 1, 2014, if the average payroll of the business which is the source of the personal business income exceeds 150% of the county average wage in the county in which the business is located then 50% of the business income would be subject to tax for that business.

Beginning on or after January 1, 2014, the corporate tax rate would be determined by the Office of Administration based on a comparison of net individual and corporation income tax revenue received in the fiscal year ending on June 30, 2012, to net individual and corporation income tax revenues received in the fiscal year ending on June 30 for the year before the year of determination. If the comparison shows a reduction from 2012 revenues, the corporate tax rate would remain the same until such time as the comparison shows revenues to be equal to or greater than 2012. Once the comparison shows income tax revenues to be equal to or greater than 2012, the tax rate would be reduced from 6.25% to 5.625% for the year following the determination, then for each year in which the comparison shows income tax revenues to be equal to or greater than 2012, the tax rate would be reduced to 5%, then 4.375%, then 3.75%, and finally to 3.125% for each subsequent tax year.

Once a reduction occurs in the rate of tax imposed, the tax rate could not increase even if the sum of corporate and individual income tax revenues received in a subsequent fiscal year is less than the sum of corporation and individual income tax revenues received in the year ending June 30, 2012.

For all years beginning on or after January 1, 2014, if the average payroll of a corporation exceeds 150% of the county average wage in the county in which the corporation is located the tax imposed upon the Missouri taxable income of corporations would be 3.125% of Missouri taxable income for that corporation.

The proposal would authorize a corresponding and proportional reduction in Financial Institution Tax rates for years beginning on or after January 1, 2014, in which there is a reduction in the corporate income tax rate.

This proposal would change the amount of payroll tax withholding for annual filing. Currently, an employer is allowed to file an annual withholding tax return instead of four quarterly returns when the aggregate amount withheld is less than $20 in each of the four preceding quarters. The proposal would change the amount to less than $100 in each of the four preceding quarters if the employer is not otherwise required to file a withholding return on a quarterly or monthly basis.

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FISCAL DESCRIPTION (continued)

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 the Secretary of State
Joint Committee on Administrative Rules
Office of Administration
    Office of the Commissioner
    Division of Budget and Planning
Department of Economic Development
Department of Insurance, Financial Institutions, and Professional Registration
Department of Revenue

Mickey Wilson

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February 19, 2014

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February 19, 2014

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