

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1681-03
Bill No.: SCS for HCS for HB 703
Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Law Enforcement Officers and Agencies; Department of Revenue
Type: Original
Date: May 8, 2019

Bill Summary: This proposal modifies provisions relating to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue*	(Unknown)	Unknown	Unknown
Total Estimated Net Effect on General Revenue	(Unknown)	Unknown	Unknown

* Oversight notes the amount of Tax Owed to the State does not change under this proposal (§143.121), this proposal only changes when the Tax is Paid to the State (cash flow).

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
KC Regional Law Enforcement Memorial Foundation*	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

* Tax Refund Donations and Distributions net to zero.

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

§143.121 Interest Additions and Subtractions

In response to similar legislation filed this year, HB 333, officials at the **Office of Administration Division of Budget and Planning (B&P)** noted that the federal Tax Cut and Jobs Act (TCJA) placed a cap on the amount of business interest that could be claimed on the federal tax return in any given year. The TCJA allows any unclaimed interest expenses to be carried forward indefinitely until the full amount has been deducted. This limit and carry forward provision began for tax year 2018.

This section would allow Missouri businesses to claim the full amount of business interest in the first year it occurred by allowing businesses to subtract any remaining amount of interest not already included in the Missouri Adjusted Gross Income (MAGI). In future years, businesses would then be required to add back into their MAGI the business interest that was carried forward on their federal return. B&P notes that this would accelerate the amount of business interest claimed into the first tax year available, but would not reduce the total amount of interest claimed over time. Therefore, this proposal will not impact Total State Revenue or the calculation under Article X, Section 18(e).

B&P estimates that this section may have a significant impact on cash flow from year to year, depending on the amount of interest accelerated through this proposal. B&P is unable to estimate the potential cash flow impact as the required information is only available on federal returns and B&P does not have access to such returns.

B&P further notes that because tax year 2018 has ended and this section would not be enacted until after the start of FY 2020, any businesses impacted would have to file an amended tax year 2018 return in FY 2020. Therefore, this may have a larger cash flow impact in FY 2020 than would otherwise be typical in future fiscal years.

Officials at the **Department of Revenue (DOR)** assume that for all tax years beginning on or after January 1, 2018, interest expenses paid or accrued in a previous taxable year, but allowed as a deduction in the current taxable year for federal tax purposes by reason of the carryforward of disallowed business interest provisions of federal law, shall be added to a taxpayer's federal adjusted gross income for the purposes of the calculation of Missouri adjusted gross income.

For all tax years beginning on or after January 1, 2018, interest expenses paid or accrued in the current taxable year, but not allowed as a deduction for federal tax purposes, shall be subtracted from a taxpayer's federal adjusted gross income for the purposes of the calculation of Missouri

ASSUMPTION (continued)

adjusted gross income.

The Department assumes this proposed legislation eliminates the carry forward provisions in 26 U.S.C. 163(j), and allows businesses the ability to deduct their total amount of disallowed business interest expenses from their Missouri tax return. This data is not reported on the Missouri Form 1120 since it currently flows through the federal corporate return. The Department also does not have access to the data on the Federal Form 8990, which would report the amount of disallowed business interest expenses claimed.

The Department believes this proposed legislation has no Total State Revenue impact, but may have a significant cash flow impact, especially in the first Fiscal Year, as businesses can take deduct the full amount up front.

Oversight notes this proposal would become effective on August 28, 2019. Since this proposal is for tax years beginning January 1, 2018, Oversight notes that any filer who reported disallowed investment interest expense would need to amend their tax return starting August 29, 2019. Oversight assumes this would cause a loss of revenue in FY 2020 and a gain in FY 2021 and FY 2022. As stated by B&P and DOR this proposal does not change the amount of tax a company would owe just when the tax is required to be paid.

Oversight currently does not have the data or resources available to produce independent revenue projections, therefore Oversight uses the same assumptions for revenue growth as the FY 2020 Consensus Revenue Estimate (CRE) for revenue growth in all future years. The CRE assumes an increase in net general revenue collections of \$192.6 million for FY 2020.

Oversight notes pursuant to §143.011 - §143.022 (SBs 509 & 496 2014) if the previous fiscal year's net general revenue collections exceed the highest net general revenue collections of the three previous fiscal years by at least \$150 million, then there will be a reduction in the individual income tax rate by one-tenth of a percent and a reduction for individual income tax filers of 5% of "business income." These reductions will reduce net General Revenue collections by an estimated \$160.0 million annually. Oversight notes the proposed legislation may impact future net revenue collections and could impact future triggering of the rate reductions required under §143.011 - §143.022.

§143.1028 KC Regional Law Enforcement Memorial

In response to the previous version, officials at the **B&P** assumed this may increase Total State Revenue by an unknown amount but will not impact the calculation under Article X, Section 18(e).

ASSUMPTION (continued)

Section 143.1028.1 would allow taxpayers to dedicate a portion of their tax refund (checkoff) to the Kansas City Regional Law Enforcement Memorial Foundation Fund. Each individual or corporation may designate \$1 or more of their refund to the newly created fund for single returns and \$2 or more for combined returns. Individuals and corporations may also make a separate payment and clearly designate the fund as the recipient.

Section 143.1028.2 creates the Kansas City Regional Law Enforcement Memorial Foundation Fund within the state treasury. The fund shall be a dedicated fund and the treasurer shall distribute collections at least monthly to the Kansas City Regional Law Enforcement Foundation. Section 143.1028.3 requires DOR to deposit all collections at least monthly into the newly created fund, less an amount sufficient to cover the costs of collection.

Officials at the **Office of the State Treasurer (STO)** and the **DOR** assume there is no fiscal impact from this proposal.

Oversight notes this proposal creates the Kansas City Regional Law Enforcement Memorial Foundation Fund to allow taxpayers to designate a portion of their Missouri tax refund to the Memorial. Individuals and corporations are allowed to designate any amount over \$1 and for combined returns individuals could designate any amount over \$2. The money is collected by the Department of Revenue and deposited at least monthly into the Fund created by the State Treasurer.

According to the Kansas City Star, the Kansas City Regional Law Enforcement Memorial is an effort to raise funds to create a memorial garden to pay tribute to all local, state and federal officers in Kansas City killed in the line of duty. The Memorial is estimated to cost \$4 million. The Kansas City Council contributed \$600,000 toward the creation of the Memorial in 2018.

Oversight for informational purposes is showing the other current tax checkoff programs the state administers and the total amounts they have collected over the previous six years.

ASSUMPTION (continued)

Checkoff Program - Fund	Amount Collected FY 2013 - FY 2018 (over 6 years)
Childhood Lead Testing - 0899	\$87,442
Children's Trust Fund - 0694	\$495,469
Military Relief Fund - 0719	\$237,886
Elderly Home Delivered Meals - 0296	\$321,449
National Guard Trust Fund - 0900	\$110,271
Veterans Trust Fund - 0579	\$319,461
Workers Memorial Trust Fund - 0895	\$45,646
Organ Donor Program Fund - 0824	\$107,097
After School Retreat Fund - 0732	\$20,196
American Cancer Society Heartland Div. - 0700	\$41,730
Gateway Area Diabetes Assn - 0713	\$17,418
American Heart Association - 0714	\$17,746
American Lung Association - 0704	\$1,595
ALS Lou Gehrig's Disease - 0703	\$15,174
Muscular Dystrophy Association - 0707	\$7,391
March of Dimes - 0716	\$15,545
National Multiple Sclerosis Society Fund - 0709	\$13,409
Breast Cancer Awareness - 0915	\$16,879
Foster Care/Adoptive Parents - 0979	\$19,268
American Red Cross - 0987	\$23,921
Developmental Disabilities Waiting List - 0986	\$8,153

Checkoff Program - Fund	Amount Collected FY 2013 - FY 2018 (over 6 years)
Puppy Protection Fund - 0985	\$34,294
Pediatric Cancer Research - 0959	\$14,859
MO National Guard Foundation - 0494	\$7,807
General Revenue Fund - 0101	\$55,785
TOTAL COLLECTED (FY 2013 - FY 2018)	\$2,061,809

The Workers Memorial Trust Fund and the MO National Guard Foundation are programs that would be similar to the Kansas City Regional Law Enforcement Memorial Foundation. **Oversight** will show in the fiscal note Less than \$10,000 raised annually through the checkoff program based on the history of these similar programs.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
GENERAL REVENUE			
<u>Revenue - DOR §143.121 change in when interest income is paid* p. 4</u>	<u>(Unknown)</u>	<u>Unknown</u>	<u>Unknown</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(Unknown)</u>	<u>Unknown</u>	<u>Unknown</u>

*** Oversight notes the amount of Tax Owed to the State does not change under this proposal, this proposal only changes when the Tax is Paid to the State (cash flow).**

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2020 (10 Mo.)	FY 2021	FY 2022
KANSAS CITY REGIONAL LAW ENFORCEMENT MEMORIAL FOUNDATION FUND			
<u>Revenue</u> - DOR §143.1028 taxpayer's refund donation p. 7	Less than \$10,000	Less than \$10,000	Less than \$10,000
<u>Distribution</u> - to Memorial	<u>(Less than \$10,000)</u>	<u>(Less than \$10,000)</u>	<u>(Less than \$10,000)</u>
ESTIMATED NET EFFECT ON THE KANSAS CITY REGIONAL LAW ENFORCEMENT MEMORIAL FOUNDATION FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This proposal modifies several provisions relating to income taxes.

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

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SOURCES OF INFORMATION

Department of Revenue
Office of Administration Division of Budget and Planning
Office of the State Treasurer



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