

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1929H.011
 Bill No.: HB 991
 Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Federal - State Relations; Tax Incentives; Revenue, Department of; Emergencies; Health, Public
 Type: Original
 Date: February 22, 2021

Bill Summary: Exempts federal economic impact payments from state income tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue Fund	Could exceed (\$20,408,809)	\$0	\$0
Total Estimated Net Effect on General Revenue	Could exceed (\$20,408,809)	\$0	\$0

*Oversight notes the fiscal impact of (\$20,408,809) in Fiscal Year 2021 (from Section(s) 143.121 & 143.171) represents the state not collecting state income tax on the second round of federal stimulus refunds distributed in 2020. This is not a loss of current funding or a new expense, but rather a non-collection (forgone income) of a potential one-year windfall of income taxes.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on FTE	0	0	0

- 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 2021	FY 2022	FY 2023
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation will reduce Total State Revenue (TSR) by an amount that could exceed \$20,390,525. B&P assume this proposed legislation will only impact TSR in Fiscal Year 2021 and Fiscal Year 2022.

B&P notes this proposed legislation contains an emergency clause in Section B. For the purpose of this fiscal note, B&P will assume that, if approved, this proposed legislation will take effect before the end of Fiscal Year 2021.

Section 143.121 states that a taxpayer shall not include any federal refunds related to COVID-19 stimulus tax credits in their Missouri adjusted gross income (MAGI). B&P notes that individuals who itemize their tax deductions may be required to include federal tax refunds within their MAGI. This provision would exclude refunds due to the COVID-19 stimulus tax credit from this requirement. B&P further notes that this would exempt both the tax credit rebates from the Coronavirus Response & Relief Supplemental Appropriation Act (December 2020) and any potential future rebates.

B&P notes that there have been two (2) COVID related economic stimulus payments thus far. B&P further notes that [SB 676 \(2020\)](#) previously exempted the first tax credit/stimulus payments resulting in a federal income tax refund from inclusion in a taxpayer's MAGI. Therefore, this proposed legislation would exempt the second round of payments/credits and any future potential credits/payments.

Section 143.171 would allow taxpayers to add their COVID-19 stimulus tax credit amount back to their final federal tax due amount, for the purpose of taking the Missouri federal income tax (FIT) deduction. B&P notes that typically anything that reduces federal income taxes due would also reduce the federal income tax deduction amount. B&P further notes that this would exempt both the tax credit rebates from the Coronavirus Response & Relief Supplemental Appropriation Act (December 2020) and any potential future rebates.

B&P also notes that only the portion of the tax credits that are claimed on a taxpayer's federal final annual return (i.e. any amount of the credit **not** directly mailed) would lower the taxpayer's federal tax liability. This would then lower the taxpayer's Missouri FIT deduction, causing an increase to their Missouri tax liability. For example: If an individual received a direct payment of \$600 for himself or herself, but qualified for an additional \$600 then that individual's federal income tax liability could be lowered by the additional \$600 rebate they claim when they file their federal 2020 tax return. This in turn could lower their Missouri FIT deduction. The \$600 direct payment that the taxpayer received is treated as a non-taxable transfer payment. The direct

payment will not impact a taxpayer’s federal tax liability and will thus not impact a taxpayer’s Missouri FIT deduction.

The second stimulus payments/credits are \$600 per taxpayer plus an additional \$600 per dependent under age 17. The payments begin to phase-out based on a taxpayer’s federal adjusted gross income. For taxpayers filing single, the credit begins to phase out at \$75,000. For married taxpayer filing a joint return, the credit begins to phase out at \$174,000. For taxpayers filing as head of household, the credit begins to phase out at \$124,500. B&P estimates that single returns claim an average of 1.42 children, married filing joint returns claim an average of 2.02 children, and head of household returns claim an average of 1.48 children. Table 1 shows the tax credit, income phase out, and the estimated average tax credit for Missouri taxpayers.

Table 1: Economic Impact Payments – 2nd round

Filing Status	Max Base Income	Base Credit	Credit Per Dependent	Average Number of Dependents*	Estimated Average Credit	Final Phase-Out Income (no dependents)	Final Phase Out Income (average # dependents)
Single	\$75,000	\$600	\$600	1.42	\$1,452.00	\$87,000	\$104,020
Married Filing Joint	\$150,000	\$1,200	\$600	2.02	\$2,412.00	\$174,000	\$198,220
HOH	\$112,500	\$600	\$600	1.48	\$1,488.00	\$124,500	\$142,240

*Based on tax year 2017 Missouri return data.

Based on information published by the Washington Post, the total number of expected payments for the second stimulus is 158 million and approximately 20 million individuals will be required to apply for the tax rebate on their annual tax return in order to receive their stimulus payment. Therefore, B&P assumes that 12.7% of taxpayers nationally could have their federal tax liability lowered due to the rebate. For the purpose of this fiscal note, B&P will assume that 12.7% of Missouri taxpayers will also receive their stimulus payments as a rebate on their tax return.

Using 2018 tax year data, the most recent complete year available, and adjusting for SB 509 (2014) and HB 2540 (2018), B&P estimates that this provision could reduce General Revenue (GR) by \$20,390,525. B&P notes that this estimate only includes qualifying individuals who **did not** receive a direct stimulus payment. There may be more individuals who receive a partial rebate on their final return, if they were entitled to a larger direct payment than what was originally received. Therefore, this proposal could decrease TSR by more than the estimate shown above.

For the purpose of this fiscal note, B&P will assume that taxpayers will claim the exemption on their 2020 tax returns filed during Fiscal Year 2021. Therefore, B&P estimates that this proposed legislation may reduce TSR and GR by an amount that could exceed \$20,390,525 in Fiscal Year 2021. However, B&P notes that some individuals may have to amend their 2020 tax return after

the start of Fiscal Year 2022. While B&P will reflect the full loss to TSR and GR in Fiscal Year 2021, there may be some carry over into Fiscal Year 2022.

B&P also notes that it is unknown whether there will be additional stimulus packages passed during the 2021 tax year. Therefore, this proposed legislation may have an unknown impact in Fiscal Year 2022, when tax year 2021 returns are filed. Therefore, B&P estimates that this proposed legislation may reduce TSR and GR by an amount that could exceed \$20,390,525 in Fiscal Year 2021. This proposed legislation may reduce TSR and GR by an unknown amount in Fiscal Year 2022. This proposed legislation is not expected to have an impact beyond Fiscal Year 2022.

Officials from the **Missouri Department of Revenue (DOR)** state, in response to the COVID pandemic the U.S. Congress authorized the Internal Revenue Service to make economic stimulus payments to taxpayers. The first round of the economic stimulus payments were issued beginning in April 2020. A second round was distributed starting in December 2020. These were issued by the Internal Revenue Service (IRS) as tax credits against taxpayer's 2020 tax return. It was the intention of the U.S. Congress to make these stimulus payments tax free at the federal level.

However, due to the way Missouri's federal income tax (FIT) deduction works, items that decrease the federal income tax would reduce the Missouri FIT deduction which would cause an increase in a taxpayer's Missouri tax liability. The intent of this proposed legislation is to exclude these payments from the Missouri FIT calculation and not impact a taxpayer's tax liability.

SB 676 (2020) previously exempted the first economic stimulus payments that were issued in April 2020, from inclusion in a taxpayer's FIT deduction. This proposed legislation would exempt the second round of economic stimulus payments that began being distributed in December 2020, and ensure that any future payments that are issued because of the COVID pandemic are exempted also.

DOR notes that many of the economic stimulus payments were mailed directly to taxpayers. These direct payments **do not** impact a taxpayer's federal liability and do not impact the Missouri FIT deduction.

However, in some instances individuals may have qualified for an economic stimulus payment and have not received them through direct payment. As an example, the IRS announced that qualifying widows and widowers would be required to file their 2020 tax return to claim the stimulus payment. Additionally, some parents who did not get the amount they qualify for because of the children they report as dependents could also be required to complete their 2020 to get their stimulus payment. The requirement to file the 2020 tax return to receive the stimulus payment would trigger the taxability of the payment under the Missouri FIT deduction.

The second stimulus payments, which were issued in December 2020, are \$600 per taxpayer plus an additional \$600 per dependent under age 17. The payments begin to phase-out based on a taxpayer’s federal adjusted gross income. For taxpayers filing single, the credit begins to phase out at \$75,000 and those over \$87,000 are not eligible. For married taxpayers filing a joint return, the credit begins to phase out at \$150,000 and those over \$174,000 are not eligible. For taxpayers filing as head of household, the credit begins to phase out at \$112,500 and those over \$124,500 are not eligible.

DOR estimates that single returns claim an average of 1.42 children, married filing joint returns claim an average of 2.02 children, and head of household returns claim an average of 1.48 children. Table 1 shows the tax credit, income phase out, and the estimated average tax credit for Missouri taxpayers.

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*Based on tax year 2017 Missouri return data.

Based on information published by the Washington Post, the total number of expected payments for the second stimulus is 158 million and approximately 20 million of those taxpayers will be required to apply for the stimulus payment on their 2020 federal tax return in order to receive their payment. Therefore, DOR assumes that 12.7% of taxpayers nationally could have their federal tax liability lowered due to the rebate. For the purpose of this fiscal note, DOR will use the 12.7% figure as the number of Missouri taxpayers who will also receive their stimulus payments as a rebate on their tax return.

Using 2018 tax year data, the most recent complete year available, and adjusting for SB 509 (2014) and HB 2540 (2018), DOR estimates that this provision could reduce GR by \$20,408,809. DOR notes that this estimate only includes qualifying individuals who **did not** receive a direct stimulus payment. There may be more individuals who receive a partial rebate on their final return, if they were entitled to a larger direct payment than what was originally received. Therefore, this proposed legislation could decrease TSR by more than the estimate shown above.

For the purpose of this fiscal note, DOR assumes that these second round stimulus payments will all be claimed on the 2020 federal tax return and impact the Missouri 2020 tax year returns (being filed starting in January 2021). DOR is unable to predict if any additional economic stimulus payments will be issued by the IRS during the 2021 tax year. Therefore, this proposed legislation is estimated to have an unknown impact in Fiscal Year 2022, when tax year 2021 returns are filed. Therefore, DOR assumes this proposed legislation may reduce TSR and GR by an amount that could exceed \$20,408,809 in Fiscal Year 2021. This proposed legislation may reduce TSR and GR by \$0 (no additional stimulus payments are issued) to an unknown amount in Fiscal Year 2022. This proposed legislation is assumed to not have an impact beyond Fiscal Year 2022.

Oversight notes B&P and DOR assume this proposed legislation **could** have an impact in Fiscal Year 2022 should:

- This proposed legislation be signed into law after taxpayers have already filed their Tax Year 2020 tax returns; resulting in such taxpayers amending their Tax Year 2020 tax return(s) in Fiscal Year 2022 or,
- Additional economic stimulus payments are issued during Tax Year 2021; Tax Year 2021 tax returns would not be filed until after January 1, 2022 (Fiscal Year 2022).

Oversight notes the estimate(s) provided by B&P and DOR were calculated using an internal tax model that contains confidential taxpayer information.

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.

For purposes of this fiscal note, **Oversight** will assume the fiscal impact will occur in Fiscal Year 2021. Oversight will report the revenue reduction, equal to an amount that “Could exceed” DOR’s estimate of \$20,408,809, in Fiscal Year 2021.

<u>FISCAL IMPACT – State Government</u>	FY 2021	FY 2022	FY 2023
GENERAL REVENUE FUND			
<u>Revenue Reduction – Section 143.121 & 143.171 – Inclusion of Qualifying Economic Stimulus Payments In FIT Calculation</u>	<u>Could exceed (\$20,408,809)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>Could exceed (\$20,408,809)</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2021	FY 2022	FY 2023
	<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

Currently, a taxpayer is allowed to deduct from his or her Missouri adjusted gross income a portion of his or her federal income taxes paid. This bill provides that federal income tax credits received under Public Law 116-260 (Consolidated Appropriations Act, 2021) or any amount of federal income tax refund attributable to a tax credit reducing a taxpayer's federal tax liability under any other federal law that provides direct economic impact payments to taxpayers to mitigate financial challenges related to the COVID-19 pandemic will not be considered when determining the amount of federal income tax liability allowable as a deduction (Section 143.171, RSMo).

Currently, taxpayers who itemize deductions are required to include any federal income tax refund amounts in his or her Missouri adjusted gross income if such taxpayer previously claimed a deduction for federal income tax liability on his or her Missouri income tax return.

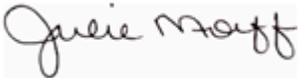
This bill provides that any amount of a federal income tax refund attributable to a tax credit received under Public Law 116-260 (Consolidated Appropriations Act, 2021) or any amount of federal income tax refund attributable to a tax credit reducing a taxpayer's federal tax liability under any other federal law that provides direct economic impact payments to taxpayers to mitigate financial challenges related to the COVID-19 pandemic will not be included in the taxpayer's Missouri adjusted gross income (Section 143.121).

This bill has an emergency clause.

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 & Planning Division
Missouri Department of Revenue



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February 22, 2021



Ross Strobe
Assistant Director
February 22, 2021