

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1929H.01P  
 Bill No.: Perfected 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: April 7, 2021

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

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue Fund*/**	Could exceed (\$5,986,325)	Could exceed (\$5,759,530)	\$0
<b>Total Estimated Net Effect on General Revenue</b>	<b>Could exceed (\$5,986,325)</b>	<b>Could exceed (\$5,759,530)</b>	<b>\$0</b>

\*Oversight notes, due to changes in the methodology used by B&P and DOR to estimate the impact(s) of this proposed legislation, the estimated reduction to GR is less than the estimated reduction reported in the previous version. 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.

\*\*Oversight notes the fiscal impact of this proposed legislation (from Section(s) 143.121 & 143.171) represents the state not collecting state income tax on the second and third round of federal economic stimulus refunds distributed in 2020 and 2021. This is not a loss of current funding or a new expense, but rather the non-collection (forgone income) of a potential two-year windfall of income taxes.

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

Numbers within parentheses: () indicate costs or losses.

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

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

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation may reduce Total State Revenue (TSR) by an amount that could exceed \$5,986,325 in Fiscal Year 2021 and \$5,759,530 in Fiscal Year 2022. B&P notes that this proposed legislation is expected to only impact TSR in Fiscal Year 2021 and Fiscal Year 2022

**B&P notes that, due to methodological changes, the estimated impact has been updated from previous versions.** Original estimates were based on a percentage of all filers receiving this tax benefit. However, after further deliberation, B&P has determined that fewer taxpayers would qualify than originally estimated. This has significantly lowered the estimated revenue loss from this (and all other related) proposals.

**Section B** contains an emergency clause. 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 the American Recovery Plan (March 2021).

B&P notes that there have been three (3) 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 and third rounds of payments/credits. This proposed legislation would also exempt any potential future issuances of COVID related stimulus 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 the American Recovery Plan (March 2021).

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 – 2<sup>nd</sup> round

Filing Status	Max Base Income	Base Credit	Credit Per Dependent	Avg. Number of Dependents*	Estimated Avg. Credit	Final Phase-Out Income (no dependents)	Final Phase Out Income (avg. # 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.

The third stimulus payments/credits were \$1,400 per taxpayer plus an additional \$1,400 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 \$150,000. For taxpayers filing as head of household, the credit begins to phase out at \$112,500. 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 2 shows the tax credit, income phase out, and the estimated average tax credit for Missouri taxpayers.

Table 2: American Recovery Plan (3rd stimulus)

Filing Status	Max Base Income	Base Credit	Credit Per Dependent	Avg. Number of Dependents*	Estimated Avg. Credit	Final Phase-Out Income
Single	\$75,000	\$1,400	\$1,400	1.42	\$3,388.00	\$80,000
Married Filing Joint	\$150,000	\$2,800	\$1,400	2.02	\$5,628.00	\$160,000
HOH	\$112,500	\$1,400	\$1,400	1.48	\$3,472.00	\$120,000

\*Based on tax year 2017 Missouri return data.

B&P notes that the number or percentage of individuals that will have to claim all or part of the third stimulus payment on their 2021 taxes is still unknown. For the purpose of this fiscal note, B&P will assume that the same 12.7% of the population that did not receive a direct payment for the second stimulus will also not receive the direct payment for the third stimulus. B&P notes however, that the IRS has until September 2021 to make the direct payments. Therefore, the percentage of individuals claiming the rebate on their 2021 taxes may be lower than the percent that had to claim the second rebate on their 2020 taxes.

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 \$5,986,325 for the second stimulus payment and \$5,759,530 for the third stimulus payment.

B&P notes that rebates for the second stimulus package will be taken on Tax Year 2020 returns. B&P further notes that the rebates for the third stimulus package will be taken on a taxpayer’s 2021 tax return.

For the purpose of this fiscal note, B&P will assume that taxpayers will either file or be able to amend their 2020 tax returns during Fiscal Year 2021. Therefore, B&P will show the estimated impact from the second stimulus payment during Fiscal Year 2021. However, it is likely that taxpayers will not be able to amend their 2020 tax returns until Fiscal Year 2022. In which case the loss shown to Fiscal Year 2021 will shift 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. B&P estimates that this proposed legislation may reduce TSR and GR by an amount that could exceed \$5,986,325 in Fiscal Year 2021. This proposed legislation may reduce TSR and GR by an amount that could exceed \$5,759,530 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 (IRS) to make economic stimulus payments to taxpayers. The first round of the economic stimulus payments were issued beginning in April 2020 under the CARES ACT. A second round was distributed starting in December 2020 under the Consolidated Appropriations Act. These were issued by the IRS as tax credits against taxpayer's 2020 tax return. A third round of economic payments were issued in March 2021 as a result of the American Rescue Plan. This third payment will be issued as tax credits against the taxpayer's 2021 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.

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 are not subject to 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.

The third stimulus payments were issued in March 2021 and are \$1,400 per taxpayer plus an additional \$1,400 per dependent. However, the income limits for eligible taxpayers were reduced. Taxpayers filing as single with adjusted gross income over \$80,000 are not eligible. Taxpayers filing as married filing a joint with an adjusted gross income over \$160,000 are not eligible. Taxpayers filing as head of household with an adjusted gross income of \$120,000 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.

Table 1: Economic Impact Payments – 2<sup>nd</sup> round

Filing Status	Max Base Income	Base Credit	Credit Per Dependent	Avg. Number of Dependents *	Estimated Avg. Credit	Final Phase-Out Income (no dependents)	Final Phase-Out Income (avg. # 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 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 estimated previously that this provision could reduce GR by \$20,408,809.

DOR reviewed this projection and realized that it used 12.7% of all tax filers instead of just the 12.7% of those that claim the FIT deductions. This resulted in an overestimation of the amount that would be impacted. The new projection is estimated to result in a loss of GR of \$5,964,957 in Fiscal Year 2021 and \$5,735,960 in Fiscal Year 2022.

DOR notes 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 all of the second round of stimulus payments will be claimed on the 2020 federal tax return and impact Missouri's 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, DOR assumes this proposed legislation may reduce TSR and GR by an amount that could exceed \$5,964,957 in Fiscal Year 2021 and \$5,735,960 in Fiscal Year 2022. This proposed legislation may reduce TSR and GR by an amount greater than \$5,735,960 if additional stimulus payments are issued in Fiscal Year 2022. This proposed legislation is assumed to not have an impact beyond 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 report a revenue reduction equal to an amount that "Could exceed" the estimate(s) provided by B&P in Fiscal Year 2021 and Fiscal Year 2022.



<u>FISCAL IMPACT – State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
<b>GENERAL REVENUE FUND</b>			
Section(s) 143.121 & 143.171 – Exclusion/Add-Back of Qualifying Economic Stimulus Payments	<u>Could exceed (\$5,986,325)</u>	<u>Could exceed (\$5,759,530)</u>	<u>\$0</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<u>Could exceed (\$5,986,325)</u>	<u>Could exceed (\$5,759,530)</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2021 (10 Mo.)	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).

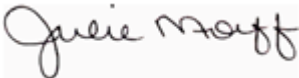
Currently, taxpayers who itemize deductions are required to include any federal income tax refund amounts in his or her Missouri adjusted gross income if such taxpayer previously claimed a deduction for federal income tax liability on his or her Missouri income tax return.

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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April 7, 2021



Ross Strobe  
Assistant Director  
April 7, 2021