

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5483-01  
Bill No.: HB 1887  
Subject: Taxation and Revenue - General; St. Louis City; Taxation and Revenue - Income  
Type: Original  
Date: March 2, 2016

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Bill Summary: This proposal prohibits the levying of an earnings tax on nonresidents of St. Louis City on January 1, 2018.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	\$0	\$0	\$4,800,000
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>\$0</b>	<b>\$4,800,000</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
<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.

This fiscal note contains 6 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</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 2017</b>	<b>FY 2018</b>	<b>FY 2019</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 \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
<b>Local Government</b>	<b>\$0</b>	<b>(\$80,000,000)</b>	<b>(\$80,000,000)</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials at the **Office of Administration's Budget and Planning Division (B&P)** assume this bill will not impact total state revenues. This bill will not impact the calculation under Article X, Section 18(e).

This bill would eliminate the 1 percent earnings tax in St. Louis City beginning January 1, 2018. Using data provided by St. Louis City, B&P determined that the average earnings and payroll tax collections from 2005-2014 was \$191.8 million. Therefore, eliminating the earnings tax in St. Louis City could reduce city revenues by \$95.9 million in FY18 and \$191.8 million in FY19 and thereafter.

Officials at the **City of St. Louis (STL)** assume the Earnings Tax is the City's single largest source of revenue amounting to a third of the general fund budget. Total receipts in the previous fiscal year exceeded \$160 million. The proposed legislation would eliminate the Earnings Tax on nonresidents of the City beginning in the 2017-18 fiscal year. While there is no definitive total of the portion of the City's Earnings tax this would represent, a fair estimate would be that close to half or more of these receipts would be jeopardized by the proposed legislation. A loss of revenue of this magnitude would be a devastating blow to the City's credit and fiscal condition and seriously impair the City's ability to provide basic City services. (for order of magnitude see illustration below)

Earnings tax receipts are:

More than the total FY15 general fund costs of the Police Department @ \$152.2 million

Or about the equivalent of the costs of these services:

Fire Department - \$63.8 million

Corrections & Juvenile Detention - \$56.3 million

Forestry Div. trimming / weed & debris - \$7.1 million

Park Maintenance - \$7.6 million

Street Maintenance & Repair - \$6.0 million

Street and Alley Lighting - \$5.8 million

Total Cost of Services - \$146.6 million

**Oversight** notes from the City of St. Louis's response the proposed legislation would eliminate the Earnings Tax beginning January 1, 2018.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State (SOS)** state 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 SOS 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, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS reserves 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.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Officials at the **Department of Revenue** and the **State Tax Commission** each assume no fiscal impact to their respective agencies from this proposal.

**Oversight** assumes a loss of \$80,000,000 in FY 18 and FY 19 to St. Louis City.

**Oversight** will further assume that earnings taxes paid are used as a deduction on tax returns submitted to the state. Therefore, Oversight will assume that a reduction in earnings taxes paid to the City of St. Louis would result in a reduction in itemized deductions which would, in turn, result in additional Missouri Income taxes paid (6 percent income tax rate). Oversight notes that not all persons currently paying earnings taxes would itemize deductions on their tax returns; therefore, Oversight will reflect additional tax collections to the state of "Up to" the amounts indicated above.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018 (6 Mo.)	FY 2019
<b>GENERAL REVENUE</b>			
<u>Revenue</u> - Department of Revenue - additional income taxes paid from a reduction in itemized deductions	<u>\$0</u>	<u>\$0</u>	<u>\$4,800,000</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$4,800,000</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018 (6 Mo.)	FY 2019
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Loss</u> - City of St. Louis - of revenue by eliminating the Earnings Tax	\$0	<u>(\$80,000,000)</u>	<u>(\$80,000,000)</u>
<b>ESTIMATED NET EFFECT ON THE LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>\$0</u></b>	<b><u>(\$80,000,000)</u></b>	<b><u>(\$80,000,000)</u></b>

FISCAL IMPACT - Small Business

There could be a direct fiscal impact to small businesses as a result of this proposal.

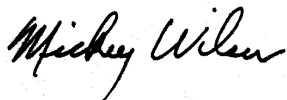
FISCAL DESCRIPTION

Currently, Kansas City and St. Louis impose an earnings tax and can continue the tax as long as it is reaffirmed by voters every five years. This bill eliminates the earnings tax after December 31, 2017 for nonresidents of St. Louis.

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  
Office of Administration  
    Budget and Planning Division  
State Tax Commission  
Department of Revenue  
City of St. Louis



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