

The Tax Cuts and Jobs Act of 2017: The Impact on State of Missouri Revenue

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1. Introduction

The 115th Congress introduced House Resolution (HR 1), the Tax Cuts and Jobs Act, on November 2nd, 2017. While many research entities and national news outlets examined the federal tax savings to the average American and the potential for job growth across the country, our office has examined the impact this bill will have on the tax revenues collected by the State of Missouri from the individual income tax. Using MOSIM—the simulation program developed by the Economic Policy Analysis and Research Center (EPARC)—we compute the projected net general revenue from the individual income tax under the current federal laws and under HR 1.

There are numerous elements in the Tax Cuts and Jobs Act of 2017 that will affect individual income taxes collected by the State of Missouri. We begin by summarizing the key points in the House of Representatives version that was voted on November 16, 2017. In bullet-point form:

- The number of federal income tax brackets will be reduced from seven to four;
- The standard deduction at the federal level will be increased;
- All personal exemptions are eliminated²;
- The Child Tax Credit will be increased;
- The Alternative Minimum Tax will be repealed; and
- A number of itemized deductions will be reduced or eliminated, including
 - Eliminates deductions for sales and income taxes paid to states;
 - Caps the amount deducted for local property taxes to \$10,000;
 - Caps the amount for mortgage interest deduction at mortgages no greater than \$500,000;
 - Eliminates moving expense deduction, except for military;

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² Under Missouri law, personal exemptions are not affected by federal tax law like the standard deductions are. See RSMO 143.151.

- Eliminates alimony expense deduction for alimony except for alimony counted as income;

2. The Analysis

Our analysis is conducted by recomputing the Net General Revenue collected from Missouri's Individual Income Tax using MOSIM. Since 1972, MOSIM has been used at the Economic & Policy Analysis Research Center, also known as EPARC, to quantitatively assess the impact that both federal and Missouri tax code changes will have on the amount of Net General Revenue, or Net GR, collected from the individual income tax. More specifically, MOSIM is a computer code that has the ability to calculate every Missourian's tax liability much the same way as commercial tax filing assistance software. It can also *recalculate* every filer's tax liability given a change in tax parameters in the form of rates, deductions, exemptions, or credits. The code may then aggregate these individual liabilities into an estimated annual individual income tax collections due to the Missouri Department of Revenue, given a change in tax parameters and taking all other variables as given.

Because of MOSIM's flexibility, the effect of changes in the federal tax code could be projected individually or with all the changes considered simultaneously. We will look at the effect of the standard deduction in isolation because its effect is so large. It is important to note that the sum of the changes in Net GR for each separate change in federal tax code will not be equal to the impact of all the changes considered simultaneously. The absence of linearity owes to the fact that MOSIM allows each filer to compute whether taking the standard deduction or itemizing deductions would be best. In other words, the decision to switch from standard to itemized deduction is not linear when one considers all the changes simultaneously.

For those not completely immersed in the federal and Missouri tax forms, you might be wondering why changes in federal tax laws would affect Missouri individual income tax collections. There are two primary ways in which the Federal legislation will impact state individual income collections. For Missouri, standard or itemized deductions matter. Note that the Missouri MO-1040 form asks for Federal Adjusted Gross Income on line 1. Line 14 on MO-1040 allows you to subtract either itemized deductions or standard deductions taken on the federal 1040 form. As such, individual income subject to Missouri taxes is negatively related to the amount deducted for either the standard or itemized cases.³

The marginal effects of changes in the federal tax code will affect Missouri individual income subject to taxes primarily through line 14 of form MO-1040. We can qualitatively examine the impact of the major pieces of the federal legislation under two broad categories. For those taking the standard deduction,

³ Note that amount of itemized deductions enter into Form MO-A on line 1 of Part 2.

Missouri taxable income will decline because the federal standard deduction is much larger under the House's bill. If only the standard deduction changed, there would be many more Missouri filers taking the standard deduction and Net General Revenue, or Net GR, would decline by \$516.2 million.

As noted in the introduction, a large number of expenses that were included in the itemized deductions were capped at lower levels or eliminated. There are two impacts associated with this change. First, more people will be taking the standard deduction since the value of itemized deductions will decline under the House-passed version of new federal tax law.⁴ Second, for those itemizing deductions, the amount will be reduced. The bottom line is some Missourians who used to itemize will now take a new, larger standard deductions and those who continue to itemize will realize a smaller itemized deduction. For the latter group, income subject to Missouri individual income tax will increase because of the smaller deductions.

We incorporate the federal tax code changes using the 2016 date file from the State of Missouri. The results are that Net GR decreases by \$121.6 million if the House-passed version of the bill is implemented. Table 1 provides the baseline projections from MOSIM. Table 2 provides the projected value of Net GR collected with the new federal tax code.⁵

In addition to the assessment of the aggregate impact on Missouri's Net GR, it is possible to compare the impacts at different income groups. The far right-hand columns in Tables 1 and 2 indicate whether the total amount of taxes collected from filers with Missouri Adjusted Gross Income (MOAGI) between \$x and \$y will pay more or less in taxes to Missouri. Except for those reporting "No Missouri Adjusted Gross Income", we see that those filers with the lowest income levels will pay less in Missouri taxes under the new federal tax code. According to our projections, aggregate net taxes due declines for all classes of filers reporting MOAGI less than \$200,000.

To further illustrate the impacts, consider filers with MOAGI not less than \$20,000 and not greater than \$25,000, the aggregate amount of net tax due to Missouri falls from \$65.1 million (Table 1) to \$28.8 million (Table 2). The number of filers in this category falls from 173,074 under the existing federal code to 115,444 under the House-passed bill. The average tax collected from filers in this category goes \$376 to \$249. Table 3 presents the calculations of average net tax due per filer in each of the MOAGI income categories. The average filer sees a reduction in their bill except for filers with MOAGI no less than \$100,000.

⁴ The decision to switch is why just looking at each part individually and summing each part is not equal to the parts considered simultaneously.

⁵ For the aggregate, subtract 5.391 billion in the lower right-hand corner of Table 2 from \$5.512 billion in the lower right-hand corner of Table 1.

3. Summary

Missouri will see a reduction in Net General Revenues collected from individual income taxes if the federal tax reform is passed, at least under the version passed by the House of Representatives on November 16, 2017. Projections indicate that most Missourians will benefit from this reduction in the form of lower state income tax bills. Based on the 2016 data, the House of Representatives version reduces Missouri collections from the individual income taxes will decline by slightly more than \$120 million.

This white paper will be updated as the bill proceeds from the Senate and then from conference.

Table 1

Simulation: BASELINE 2016

Date: 11/17/17
 Projected to Year 2018

Missouri Individual Income Tax Simulation
 Tax File = 2016
 Area = Statewide
 (dollar amounts in thousands)

Missouri Adjusted Gross Income Class	Gross Tax Due		General Tax Credits		Outstate Tax Credits		Nonresident Tax Liability			Net Tax Due	
	Number	Amount	Number	Amount	Number	Amount	Number	Total	Missouri	Number	Amount
No Adjusted Gross Income	1	\$0	4,460	\$3,073	0	\$0	146	\$0	\$0	1	\$0
Under \$5,000	61,865	\$3,452	41,721	\$24,823	291	\$6	71,738	\$566,627	\$3,350	61,725	\$3,441
\$5,000 under \$10,000	85,904	\$7,222	17,090	\$7,865	2,265	\$44	35,318	\$256,967	\$5,894	84,992	\$7,165
\$10,000 under \$15,000	135,951	\$16,923	8,039	\$2,940	6,147	\$373	23,296	\$161,025	\$7,406	132,340	\$16,489
\$15,000 under \$20,000	162,777	\$35,462	2,430	\$917	7,256	\$1,032	17,376	\$117,454	\$8,466	159,790	\$34,372
\$20,000 under \$25,000	175,199	\$67,414	1,310	\$490	8,806	\$2,195	14,451	\$96,051	\$9,753	173,074	\$65,084
\$25,000 under \$30,000	167,342	\$97,698	836	\$265	9,451	\$3,602	12,591	\$155,748	\$10,957	165,718	\$94,001
\$30,000 under \$35,000	153,926	\$122,346	544	\$186	9,672	\$5,096	11,141	\$98,124	\$11,922	152,406	\$117,185
\$35,000 under \$40,000	135,226	\$135,522	523	\$213	9,373	\$6,295	10,120	\$74,376	\$12,965	133,640	\$129,130
\$40,000 under \$45,000	118,291	\$142,869	555	\$261	8,818	\$7,091	9,165	\$78,075	\$13,698	116,987	\$135,636
\$45,000 under \$50,000	105,404	\$149,295	582	\$270	8,293	\$7,371	8,306	\$65,480	\$14,203	104,315	\$141,762
\$50,000 under \$55,000	95,413	\$154,929	592	\$339	7,908	\$7,708	7,818	\$64,572	\$15,003	94,507	\$146,991
\$55,000 under \$60,000	86,648	\$158,889	653	\$376	7,461	\$7,885	6,952	\$53,222	\$14,873	85,928	\$150,715
\$60,000 under \$65,000	77,620	\$158,003	607	\$359	6,939	\$7,925	5,972	\$53,743	\$14,183	77,024	\$149,808
\$65,000 under \$70,000	70,957	\$159,405	563	\$320	6,625	\$7,893	5,436	\$47,286	\$14,077	70,477	\$151,266
\$70,000 under \$75,000	64,545	\$158,072	541	\$322	6,309	\$7,981	4,828	\$55,793	\$13,481	64,131	\$149,829
\$75,000 under \$100,000	249,941	\$758,204	2,785	\$1,888	27,219	\$39,827	17,347	\$189,810	\$59,283	248,765	\$716,799
\$100,000 under \$200,000	314,507	\$1,645,570	5,849	\$6,680	41,269	\$92,898	20,455	\$423,199	\$116,953	313,418	\$1,546,797
\$200,000 under \$500,000	75,169	\$962,749	4,103	\$12,787	11,609	\$48,603	6,510	\$343,451	\$89,647	74,722	\$902,494
\$500,000 under \$1,000,000	11,451	\$376,785	1,433	\$13,052	2,696	\$22,691	1,351	\$182,297	\$46,256	11,221	\$341,793
\$1,000,000 or more	4,869	\$656,823	1,258	\$72,081	1,804	\$77,255	591	\$417,619	\$84,121	4,591	\$511,534
Total	2,353,006	\$5,967,632	96,474	\$149,507	190,211	\$353,771	290,908	\$3,500,919	\$566,491	2,329,772	\$5,512,291

Table 2

Simulation: US House Passed Bill 11/16/2017

Date: 11/17/17
 Projected to Year 2018

Missouri Individual Income Tax Simulation
 Tax File = 2016
 Area = Statewide
 (dollar amounts in thousands)

Missouri Adjusted Gross Income Class	Gross Tax Due		General Tax Credits		Outstate Tax Credits		Nonresident Tax Liability			Net Tax Due	
	Number	Amount	Number	Amount	Number	Amount	Number	Total	Missouri	Number	Amount
No Adjusted Gross Income	14	\$17	4,441	\$3,059	0	\$0	140	\$104	\$7	14	\$17
Under \$5,000	55,558	\$3,164	41,675	\$24,796	291	\$6	71,635	\$641,946	\$3,034	55,398	\$3,151
\$5,000 under \$10,000	66,708	\$6,340	17,090	\$7,872	2,241	\$44	35,305	\$292,520	\$5,088	66,033	\$6,279
\$10,000 under \$15,000	47,814	\$9,901	8,056	\$2,953	6,135	\$371	23,277	\$175,294	\$6,217	47,014	\$9,711
\$15,000 under \$20,000	109,930	\$14,701	2,458	\$931	7,246	\$1,030	17,397	\$139,282	\$7,100	105,350	\$14,282
\$20,000 under \$25,000	119,856	\$29,938	1,310	\$488	8,776	\$2,187	14,417	\$102,461	\$8,226	115,444	\$28,776
\$25,000 under \$30,000	140,300	\$52,447	829	\$266	9,445	\$3,596	12,566	\$168,540	\$9,363	135,167	\$50,149
\$30,000 under \$35,000	142,469	\$76,843	548	\$187	9,662	\$5,091	11,188	\$110,596	\$10,520	137,510	\$73,158
\$35,000 under \$40,000	130,620	\$95,209	520	\$208	9,371	\$6,293	10,135	\$79,032	\$11,681	126,301	\$90,166
\$40,000 under \$45,000	116,792	\$108,704	551	\$258	8,781	\$7,071	9,155	\$85,938	\$12,674	113,205	\$102,579
\$45,000 under \$50,000	105,395	\$120,190	584	\$272	8,286	\$7,360	8,297	\$69,368	\$13,472	102,666	\$113,531
\$50,000 under \$55,000	95,582	\$129,143	583	\$312	7,892	\$7,701	7,835	\$71,702	\$14,625	93,534	\$121,906
\$55,000 under \$60,000	86,753	\$136,667	647	\$382	7,471	\$7,889	6,948	\$55,645	\$14,683	85,210	\$129,040
\$60,000 under \$65,000	77,827	\$139,460	598	\$349	6,948	\$7,933	5,956	\$56,854	\$14,216	76,795	\$131,711
\$65,000 under \$70,000	71,060	\$143,378	568	\$335	6,590	\$7,865	5,455	\$52,247	\$14,357	70,461	\$135,652
\$70,000 under \$75,000	64,590	\$144,714	542	\$318	6,323	\$7,986	4,814	\$60,251	\$13,806	64,121	\$136,826
\$75,000 under \$100,000	250,276	\$730,059	2,775	\$1,854	27,225	\$39,846	17,375	\$210,506	\$62,730	249,140	\$689,656
\$100,000 under \$200,000	315,339	\$1,718,723	5,852	\$6,576	41,279	\$92,940	20,509	\$477,106	\$128,526	314,801	\$1,620,187
\$200,000 under \$500,000	75,738	\$1,045,519	4,112	\$12,692	11,664	\$48,798	6,547	\$385,866	\$99,009	75,579	\$984,546
\$500,000 under \$1,000,000	11,658	\$414,651	1,448	\$12,874	2,734	\$22,909	1,364	\$214,641	\$50,704	11,563	\$378,836
\$1,000,000 or more	4,976	\$721,738	1,287	\$72,524	1,852	\$79,623	593	\$453,128	\$91,683	4,845	\$570,565
Total	2,089,255	\$5,841,506	96,474	\$149,506	190,212	\$356,539	290,908	\$3,903,027	\$591,721	2,050,151	\$5,390,724

Table 3

**Comparison of the Distribution
of Net Tax Due by Income Level**

MOAGI	Number of filers -- existing law	Aggregate net tax due	Tax due per filer		Number of filers -- House-passed law	Aggregate net tax due	Tax due per filer
< \$5,000	61,725	3,441	56		55,398	3,151	57
\$5,000 < x < \$10,000	84,992	7,165	84		66,033	6,279	95
\$10,000 < x < \$15,000	132,340	16,489	125		47,014	9,711	207
\$15,000 < x < \$20,000	159,790	34,372	215		106,350	14,282	134
\$20,000 < x < \$25,000	173,074	65,084	376		115,444	28,776	249
\$25,000 < x < \$30,000	165,718	94,001	567		135,187	50,149	371
\$30,000 < x < \$35,000	152,406	117,185	769		137,510	73,158	532
\$35,000 < x < \$40,000	133,640	129,130	966		126,301	90,166	714
\$40,000 < x < \$45,000	116,987	135,636	1159		113,205	102,579	906
\$45,000 < x < \$50,000	104,315	141,762	1359		102,666	113,531	1106
\$50,000 < x < \$55,000	94,507	146,991	1555		93,534	121,906	1303
\$55,000 < x < \$60,000	85,928	150,715	1754		85,710	129,040	1506
\$60,000 < x < \$65,000	77,024	149,808	1945		76,795	131,711	1715
\$65,000 < x < \$70,000	70,477	151,266	2146		70,461	135,652	1925
\$70,000 < x < \$75,000	64,131	149,829	2336		64,121	136,826	2134
\$75,000 < x < \$100,000	248,765	716,799	2881		249,140	689,656	2768
\$100,000 < x < \$200,000	313,418	1,546,797	4935		314,801	1,620,187	5147
\$200,000 < x < \$500,000	74,722	902,494	12078		75,579	984,546	13027
\$500,000 < x < \$1,000,000	11,221	341,793	30460		11,563	378,836	32763
\$1,000,000 < x	4,591	511,534	111421		4,845	570,565	117764