COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3326H.01I
Bill No.: HB 2919
Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Corporations
Type: Original
Date: March 11, 2024

Bill Summary: This proposal modifies provisions relating to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2028)
General Revenue	($357,351,213)	($780,926,393)	($816,961,496)	($874,878,531)
Total Estimated Net Effect on General Revenue	**($357,351,213)**	**($780,926,393)**	**($816,961,496)**	**($874,878,531)**

***Oversight** notes, currently, the state individual income tax rate (4.80% in TY 2024) is to be reduced in annual 0.1% increments (if certain triggers are met) until it reaches 4.5%. This proposal changes the individual income tax rate to a flat 4% rate in tax year 2025. This fiscal note reflects the assumptions that the current SB 3 (2022) individual income tax rate reductions will reset the scheduled reductions under SB 3 (2022) with the first 0.15% reduction beginning in tax year 2027 (resulting in a flat tax rate of 3.85%). **Additional individual income tax rate changes and sales tax rate changes could occur beyond FY 2028 (pending voter approval AND revenue growth triggers being met – those are <u>not</u> reflected in the totals above).**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2028)
Total Estimated Net Effect on <u>Other</u> State Funds	**$0**	**$0**	**$0**	**$0**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2028)
Total Estimated Net Effect on <u>All</u> Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2028)
Total Estimated Net Effect on FTE	**0**	**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 2025	FY 2026	FY 2027	Fully Implemented (FY 2028)
Local Government	**$0**	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Section 143.011 Individual Income Tax Rate Reduction

Officials from the **Department of Revenue (DOR)** note this proposal stops the current individual income tax rate brackets on December 31, 2024. Starting January 1, 2025, this sets the individual income tax rate at 4.0% for all income over $1,000.

It should be noted that SB 3 adopted in 2022, set the individual income tax rate top bracket at 4.95% in TY 2023 and set it at 4.8% in TY 2024 and based on certain revenue triggers allows the tax rate to continue to fall until it hits 4.5%. Based on the current revenue forecasts, the rate is expected to be 4.8% in TY 2024 and TY 2025. This proposal would reset the reductions to start the .15% reduction and rest of the SB 3 rate reductions to occur. The current brackets for 2024 look like this.

2024									
If the taxable income is:					**The tax is:**				
	0	to	$1,273		$0				
Over	$1,273	but not over	$2,546				2.0%	of the excess over	$1,273
Over	$2,546	but not over	$3,819		$25	plus	2.5%	of the excess over	$2,546
Over	$3,819	but not over	$5,092		$57	plus	3.0%	of the excess over	$3,819
Over	$5,092	but not over	$6,365		$95	plus	3.5%	of the excess over	$5,092
Over	$6,365	but not over	$7,638		$140	plus	4.0%	of the excess over	$6,365
Over	$7,638	but not over	$8,911		$191	plus	4.5%	of the excess over	$7,638
Over	$8,911				$248	plus	4.8%	of the excess over	$8,911

The newly proposal tax rate would be:

Tax Year	Current Tax Rate	Proposed
2025	4.80%	4.00%
2026	4.80%	4.00%
2027	4.70%	3.85%
2028	4.60%	3.75%
2029	4.50%	3.65%
2030	4.50%	3.55%

The Department used its internal Income Tax Model that contains confidential taxpayer data to calculate the fiscal impact of these changes.

Tax Year	Amount
2025	($846,960,195.43)
2026	($842,554,306.85)
2027	($934,261,566.97)
2028	($945,253,650.72)
2029	($959,810,524.19)
2030	($1,110,418,106.56)

Since this proposal would begin each January, taxpayers would be able to adjust their withholding, starting in the first fiscal year. Based on collection data, DOR knows that 42% of all individual income tax is received in the first fiscal year and 58% is received in the second year. Therefore, DOR would expect to see a loss to general revenue per fiscal year as follows:

Fiscal Year	Loss to GR
2025	($355,723,282.08)
2026	($845,109,722.23)
2027	($881,071,356.10)
2028	($938,878,242.14)
2029	($951,367,537.58)
2030	($1,023,065,708.79)

Optional - Additional Reductions

DOR notes this proposal has a provision that is contingent on a constitutional amendment passing that modifies Article X, Section 27(c) of the Constitution. At the time of responding to the fiscal note, no such constitutional amendment is pending at the Office of the Secretary of State to be on the ballot in November 2024. If the amendment is not filed or does not get adopted by the people, the rate reductions outlined in the proposal will not go into effect and will not have any additional fiscal impact.

Should such a constitutional amendment be adopted, this proposal contains language that would allow additional rate reductions. This proposal says the constitutional amendment would create a surplus revenue fund that receives funding of $250 million. Once the Fund reached $250 million in revenue, an additional one-quarter of one percent individual income tax reduction would occur each year a transfer is made into the Fund.

It should be noted that a constitutional amendment would not become effective until January 1, 2025, if adopted at the November 2024 general election and the first change would not occur until tax year 2027. DOR will show the individual income tax reductions triggering under the surplus revenue fund formula starting in TY 2031.

Tax Year	Current	Proposed
2024	4.8%	n/a
2025	4.8%	4.00%
2026	4.8%	4.00%
2027	4.7%	3.85%
2028	4.6%	3.75%
2029	4.5%	3.65%
2030	4.5%	3.55%
TY 20x1	4.5%	3.30%
TY 20x2	4.5%	3.05%
TY 20x3	4.5%	2.80%
TY 20x4	4.5%	2.55%
TY 20x5	4.5%	2.30%
TY 20x6	4.5%	2.05%
TY 20x7	4.5%	1.80%
TY 20x8	4.5%	1.55%
TY 20x9	4.5%	1.30%
TY 20x10	4.5%	1.05%
TY 20x11	4.5%	0.80%
TY 20x12	4.5%	0.55%
TY 20x13	4.5%	0.30%
TY 20x14	4.5%	0.05%
TY 20x15	4.5%	0.00%

The Department used its internal Income Tax Model that contains confidential taxpayer data to calculate the fiscal impact of the required flat tax changes with these additional triggered changes. The new impact would be:

Tax Year	Amount
2025	($846,960,195)
2026	($842,554,307)
2027	($934,261,567)
2028	($945,253,651)
2029	($959,810,524)
2030	($1,110,418,107)
TY 20x1	($1,496,127,042)
TY 20x2	($1,879,023,836)
TY 20x3	($2,261,327,172)
TY 20x4	($2,645,735,506)
TY 20x5	($3,029,380,973)
TY 20x6	($3,407,076,801)
TY 20x7	($3,791,954,286)
TY 20x8	($4,173,512,441)
TY 20x9	($4,553,903,568)
TY 20x10	($4,933,629,570)
TY 20x11	($5,312,242,861)
TY 20x12	($5,691,602,624)
TY 20x13	($6,067,021,429)
TY 20x14	($5,747,681,347)
TY 20x15	($8,741,714,300)

Using a split to convert fiscal years would result in a fiscal year impact:

Fiscal Year	Loss to GR
2025	($355,723,282)
2026	($845,109,722)
2027	($881,071,356)
2028	($938,878,242)
2029	($951,367,538)
2030	($1,023,065,709)
FY 20x1	($1,272,415,859)
FY 20x2	($1,656,943,696)
FY 20x3	($2,039,591,237)
FY 20x4	($2,422,778,672)
FY 20x5	($2,806,866,602)
FY 20x6	($3,188,013,221)
FY 20x7	($3,568,725,345)
FY 20x8	($3,952,208,711)
FY 20x9	($4,333,276,714)
FY 20x10	($4,713,388,489)
FY 20x11	($5,092,647,152)
FY 20x12	($5,471,573,962)
FY 20x13	($5,849,278,522)
FY 20x14	($5,932,898,595)
FY 20x15	($8,741,714,300)

The constitutional amendment language does allow the one quarter of one percent reductions to continue until such time as the individual income tax is completely eliminated. It is unclear in which year that would happen. It will result in a loss to general revenue of $8.7 billion when fully implemented.

Officials from the **Office of Administration - Budget and Planning (B&P)** note the following:

<u>Mandatory Changes – Individual and Corporate Income Taxes</u>

Section 143.011 would create a flat tax starting with tax year 2025. In addition, this proposal retains the existing tax rate reductions created under SB 3 (2022).

Section 143.171 would end the federal income tax deduction for both corporate and individual income tax, starting with tax year 2025. B&P will only include the impact for individual income under this section, please see the discussion for corporations for the estimated impact from eliminating the corporation federal income tax deduction.

Section 143.011.4 allows for a 0.15% reduction, pending net general revenue growth of $175 million over the largest of the previous three fiscal years. B&P notes that under current law, this provision was triggered for tax year 2024 reducing the top tax rate from 4.95% (tax year 2023) to 4.8% (current). However, this proposal would reset the reduction to now apply to the new 4.0% flat tax created under section 143.011.3.

Section 143.011.5 allows for three additional 0.1% reductions to the tax rate, pending net general revenue growth.

Based on current revenue forecasts and average revenue growth, B&P estimates that net general revenue growth in FY26 may trigger the first 0.15% reduction (section 143.011.4) for tax year 2027. For the purpose of this fiscal note, B&P will assume that revenues in FY27, FY28, and FY29 trigger the remaining three 0.1% reductions (section 143.011.5).

Therefore, B&P estimates that the tax rate will be 4.0% for tax years 2025 and 2026. By tax year 2030, the tax rate may be 3.55%. Table 1 shows the estimated tax brackets throughout the implementation of this proposal.

Table 1: Proposed Tax Rates

Tax Year	Current	Reduction	Reduction Reason	Proposed
2024	4.8%			n/a
2025	4.8%	(1.0%)	Proposed 4.0%	4.00%
2026	4.8%	0.0%		4.00%
2027	4.7%	(0.15%)	SB 3 (2022) / proposal mandatory	3.85%
2028	4.6%	(0.1%)	SB 3 (2022) / proposal mandatory	3.75%
2029	4.5%	(0.1%)	SB 3 (2022) / proposal mandatory	3.65%
2030	4.5%	(0.1%)	SB 3 (2022) / proposal mandatory	3.55%

Using tax year 2021 data, the most recent complete tax year available, and accounting for the changes in individual income tax law created by SB 3 (2022), B&P estimates that this provision could reduce GR by $850,793,732 in tax year 2025. Once fully implemented, this proposal could reduce GR by $1,118,019,822 annually. Table 2 shows the estimated impact by tax year.

Table 2: Individual Income Estimated Impact by Tax Year

Tax Year	Loss to GR
2025	($850,793,732)
2026	($846,376,214)
2027	($938,274,462)
2028	($949,265,059)
2029	($963,796,153)
2030	($1,118,019,822)

However, because this proposal would take effect January 1st of a tax year, individuals will adjust their withholdings and declarations during FY1. Based on actual collections data, B&P estimates that 42% of individual income taxes are paid during fiscal year 1 and 58% are paid during fiscal year 2. Therefore, B&P estimates that this provision could reduce GR by $357,333,367 in FY25. Once fully implemented this provision could reduce GR by $1,118,019,822 annually. Table 3 shows the estimated impact from this section by fiscal year.

Table 3: Individual Income Estimated Impact by Fiscal Year

Fiscal Year	Loss to GR
2025	($357,333,367)
2026	($848,938,375)
2027	($884,973,478)
2028	($942,890,513)
2029	($955,368,119)
2030	($1,028,570,094)
2031	($1,118,019,822)

Oversight notes DOR & B&P's estimates include data from the department's internal Income Tax Model.

Oversight notes that it does not currently have the resources and/or access to state tax data to produce a thorough independent revenue estimate and is unable to verify the revenue estimates provided by DOR & B&P. Therefore, for the purpose of this fiscal note, Oversight will note B&P's estimated impact for this proposal.

Section 143.021 Taxable Income Minimum

Officials from the **Office of Administration - Budget and Planning (B&P)** note Section 143.021 would prohibit the individual income tax on taxable income up to $1,000. B&P notes that currently (tax year 2024), there is no individual income tax levied on incomes below $1,273. B&P further notes that under current law, this amount is adjusted annually for inflation. This proposal would reset the exemption at $1,000 and stop the annual inflation adjustment.

Oversight notes this provision states there will be no tax on taxable income of less than or equal to $1,000. Oversight notes this is the current taxable minimum under current law, therefore Oversight will reflect a zero impact in the fiscal note for this provision.

Section 143.171 Disallowance of Federal Income Tax Deduction

Officials from the **Department of Revenue (DOR)** note this proposal removes the individual and corporate federal income tax deduction. DOR removed the individual deduction when calculating the new rate above. DOR used their internal confidential database to run the loss of revenue which amounts to ($68,011,982) annually.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would end the federal income tax deduction for both corporate and individual income tax, starting with tax year 2025. B&P will only include the impact for corporate income under this section, please see the discussion for individuals for the estimated impact from eliminating the individual federal income tax deduction.

Using tax year 2021 data, the most recent complete year available, B&P notes that corporations claimed $121.40 billion in federal income taxes paid. B&P further notes that based on the percentage of total taxable income versus Missouri source income, approximately 1.6% of that federal income tax would be apportioned to Missouri. Therefore, B&P estimates that of the $121.40 billion in federal taxes, approximately $1.70 billion was related to Missouri source income.

B&P notes that the federal income tax deduction is granted when corporations file their annual tax returns. For the purpose of this fiscal note, B&P will assume that corporations file their annual returns the fiscal year after the end of the calendar year (i.e. annual returns filed during FY26 for tax year 2025).

Therefore, B&P estimates that this provision could increase TSR and GR by $68,011,982 ($1,700,299,551 x 4.0%) annually beginning in FY26.

Oversight will note B&P's estimated impact for this provision.

Section 144.1050 - Sales & Use Tax Increase

Officials from the **Department of Revenue (DOR)** note this proposal has a provision that is contingent on a constitutional amendment passing. If the amendment does not pass, the sales tax rate increases outlined in the proposal will not go into effect and will not have any additional fiscal impact.

Should the constitutional amendment be adopted it contains language that would trigger an increase in the state sale and use tax rate when the individual income tax rate (discussed above) is lowered. The increase in the state sales and use taxes would be one-quarter of one percent until the total sales tax reaches 6.225%. The state sales tax rate is currently 4.225%. The sales tax is distributed amongst several funds and is dependent on whether the item purchased is a motor vehicle or something else.

The sales tax for all tangible personal property other than motor vehicles is distributed:

General Revenue is 3%	
School District Trust Fund is 1%	(Section 144.701)
Conservation Commission Fund is .125%	(Article IV, Section 43(a))
Parks, Soil & Water Funds .1%	(Article IV, Section 47(a))

The sales tax for motor vehicles is distributed:
The MV portion's 3% is distributed as:
State Road Bond Fund 50%
Highway Use 50%

Highway Use is constitutionally divided as follow:

- 10% counties- Local money goes into the FLOYD FUND
- 15% cities – Local money goes into the FLOYD FUND
- 2% transportation fund
- 73% state road fund

Conservation is .125%
Parks, Soil & Water is .1%
The 1% to school districts goes to:

- 50% to School District Trust Fund
- 50% to Highway Use (as listed above)

This proposal says the increase is to go to "all state sales and use taxes". DOR assumes that since the Conservation Commission and Park, Soil & Water funds are constitutionally set, the Department assumes their rate cannot be changed by this proposal. However, that leaves the remaining funds to be impacted. Since this proposal caps the total sales tax increase at 6.225% this would limit the increases to no more than 4. The rates would be:

Tax Year	General 3%	Education 1%	Total State Rate	Fully Implemented (FY 2028)
TY 20 x1	3.250%	1.250%	4.725%	
TY 20x2	3.500%	1.500%	5.225%	
TY 20x3	3.750%	1.750%	5.725%	
TY 20x4	4.000%	2.000%	6.225%	$0

The general state general sales and use tax would result in the following increase in funds.

	General Revenue	School District
TY 1	$245,304,148.26	$284,448,332.00
TY 2	$490,608,296.53	$568,896,664.00
TY 3	$735,912,444.79	$853,344,996.00
TY 4	$981,216,593.05	$1,137,793,328.00

The motor vehicle state sales and use tax would result in the following increase in funds.

	Education	State Road Bond Fund	State Road Fund	State Transportation Fund	Locals
TY 1	$16,609,702.69	$16,609,702.69	$24,250,165.93	$664,388.11	$8,304,851.35
TY 2	$33,219,405.38	$33,219,405.38	$48,500,331.86	$1,328,776.22	$16,609,702.69
TY 3	$49,829,108.07	$49,829,108.07	$72,750,497.78	$1,993,164.32	$24,914,554.04
TY 4	$66,438,810.76	$66,438,810.76	$97,000,663.71	$2,657,552.43	$33,219,405.38

DOR notes the sales tax would change in January. Sales tax is remitted and distributed one month behind collection. Therefore, this will have 5-month impact in the first year of each increase. Therefore, this will result in additional revenue to the following funds per tax year if adopted.

Total Additional Sales Tax

	General Revenue	Education	State Road Bond Fund	State Road Fund	State Transportatio n Fund	Locals
TY 1	$245,304,148	$301,058,034.69	$24,250,165.93	$24,250,165.93	$664,388.11	$8,304,851.35
TY 2	$490,608,296	$602,116,069.38	$48,500,331.86	$48,500,331.86	$1,328,776.22	$16,609,702.69
TY 3	$735,912,444	$903,174,104.07	$72,750,497.78	$72,750,497.78	$1,993,164.32	$24,914,554.04
TY 4	$981,216,593	$1,204,232,138.76	$97,000,663.71	$97,000,663.71	$2,657,552.43	$33,219,405.38

Oversight notes that the Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax of the Missouri Constitution, thus MDC=s sales taxes are constitutional mandates. Oversight assumes the proposed changes to "state" sales tax rates would not include constitutionally mandated funds. Therefore, Oversight will reflect no impact to MDC's funds. Officials from the **Department of Natural Resources** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary.

Oversight notes the Park, Soil, and Water Sales Tax funds are derived from the one-tenth of one percent sales and use tax pursuant to Article IV Section 47 (a) thus DNR's sales taxes are constitutional mandates. Oversight assumes the proposed changes to "state" sales tax rates would not include constitutionally mandated funds. Therefore, Oversight will reflect no impact to these funds.

Responses regarding the proposed legislation as a whole

Officials from the **Department of Revenue (DOR)** note this proposal will require the Department to make changes to the department's MO-1040 form, website and individual income tax computer system annually. These changes are estimated at $8,923 each year.

This proposal will also require the Department to make changes to the department's sales tax forms, website and computer systems annually. These changes are estimated at $8,923 each year.

The Department at this time assumes they can handle the processing of these returns with existing staff. Should the number of corrections/correspondence equal the number to justify additional FTE from this proposal or the combination of multiple bills passing, DOR would request those FTE through the appropriation process.

1 FTE Associate Customer Service Representative ($35,880) for every 6,000 additional returns.
1 FTE Associate Customer Service Representative ($35,880) for every 7,600 errors/correspondence generated.

Oversight will reflect DOR's costs for form and system changes estimated at ($17,846) in FY 2025.

Officials from the **Office of Administration - Budget and Planning (B&P)** note the following:

Contingent Changes – Individual Income and Sales Taxes
B&P notes that all impacts estimated below are in addition to the impacts estimated above under "mandatory".

Sections 143.011 - Individual Income Tax Reduction
Section 143.011.6 would reduce the tax rate by 0.25%, until the individual income tax is phase-out. Reductions to the tax rate will only occur if a qualifying constitutional amendment is voter approved. In addition, a reduction shall only occur if there is $20 million in surplus revenues and if a tax reform fund has a balance of $250 million.

B&P notes the following issues:

- The term "surplus revenue" is not defined.
- The "tax reform fund" is not established in this proposal. B&P notes that this section requires the qualifying constitutional amendment to establish a "surplus revenue fund" not a "tax reform fund".
- In the phrase "…reached and maintained a funding amount of $250 million…", the term "maintained" is not defined. It is unclear whether the fund only needs to reach $250 million of if the fund needs to maintain a $250 million balance for an unspecified amount of time.

B&P notes that this section only requires that a constitutional amendment be drafted to Article X, Section 27(c) and create a "surplus revenue fund". This proposal does not require such constitutional amendment to define or lay out any other requirements of such fund.

For the purpose of this fiscal note, B&P will show the potential reductions to the tax rate as occurring after the mandatory reductions contained in subsections 4 and 5. B&P notes that it is possible the rate reductions under subsection 5 (0.1%) and subsection 6 (0.25%) could occur in the same years. Table 5 shows the estimated individual income tax rates.

Table 5: Proposed Tax Rates

Tax Year	Current	Reduction	Reduction Reason	Proposed
2024	4.8%			n/a
2025	4.8%	(1.0%)	Proposed 4.0%	4.00%
2026	4.8%	0.0%		4.00%
2027	4.7%	(0.15%)	SB 3 (2022) / proposal mandatory	3.85%
2028	4.6%	(0.1%)	SB 3 (2022) / proposal mandatory	3.75%
2029	4.5%	(0.1%)	SB 3 (2022) / proposal mandatory	3.65%
2030	4.5%	(0.1%)	SB 3 (2022) / proposal mandatory	3.55%
TY 20x1	4.5%	(0.25%)	proposal / contingent	3.30%
TY 20x2	4.5%	(0.25%)	proposal / contingent	3.05%
TY 20x3	4.5%	(0.25%)	proposal / contingent	2.80%
TY 20x4	4.5%	(0.25%)	proposal / contingent	2.55%
TY 20x5	4.5%	(0.25%)	proposal / contingent	2.30%
TY 20x6	4.5%	(0.25%)	proposal / contingent	2.05%
TY 20x7	4.5%	(0.25%)	proposal / contingent	1.80%
TY 20x8	4.5%	(0.25%)	proposal / contingent	1.55%
TY 20x9	4.5%	(0.25%)	proposal / contingent	1.30%

TY 20x10	4.5%	(0.25%)	proposal / contingent	1.05%
TY 20x11	4.5%	(0.25%)	proposal / contingent	0.80%
TY 20x12	4.5%	(0.25%)	proposal / contingent	0.55%
TY 20x13	4.5%	(0.25%)	proposal / contingent	0.30%
TY 20x14	4.5%	(0.25%)	proposal / contingent	0.05%
TY 20x15	4.5%	(0.05%)	proposal / contingent	0.00%

Using tax year 2021 data, the most recent complete tax year available, and accounting for the changes in individual income tax law created by SB 3 (2022), B&P estimates that this provision could reduce GR by $1,508,167,382 as early as tax year 2031. Once fully implemented, this proposal could reduce GR by $8,741,714,300 annually. Table 6 shows the estimated impact by tax year.

Table 6: Individual Income Estimated Impact by Tax Year

Tax Year	Loss to GR	Tax Year	Loss to GR
TY 20x1	($1,508,167,382)	TY 20x9	($4,611,907,366)
TY 20x2	($1,896,874,564)	TY 20x10	($4,997,779,837)
TY 20x3	($2,285,221,619)	TY 20x11	($5,382,755,585)
TY 20x4	($2,674,502,220)	TY 20x12	($5,767,658,286)
TY 20x5	($3,063,267,670)	TY 20x13	($6,149,835,166)
TY 20x6	($3,448,950,779)	TY 20x14	($6,528,849,582)
TY 20x7	($3,838,145,807)	TY 20x15	($8,741,714,300)
TY 20x8	($4,225,433,046)		

However, because this proposal would take effect January 1st of a tax year, individuals will adjust their withholdings and declarations during FY1. Based on actual collections data, B&P estimates that 42% of individual income taxes are paid during fiscal year 1 and 58% are paid during fiscal year 2. Therefore, B&P estimates that this provision could reduce GR by $1,281,881,797 during the first fiscal year of implementation. Once fully implemented this provision could reduce GR by $8,741,714,300 annually. Table 7 shows the estimated impact from this section by fiscal year.

Table 7: Individual Income Estimated Impact by Fiscal Year

Fiscal Year	Loss to GR	Fiscal Year	Loss to GR
FY 20x1	($1,281,881,797)	FY 20x9	($4,387,752,261)
FY 20x2	($1,671,424,398)	FY 20x10	($4,773,973,804)
FY 20x3	($2,059,980,327)	FY 20x11	($5,159,469,651)
FY 20x4	($2,448,719,471)	FY 20x12	($5,544,414,719)
FY 20x5	($2,837,783,709)	FY 20x13	($5,928,172,575)
FY 20x6	($3,225,254,576)	FY 20x14	($6,309,021,221)
FY 20x7	($3,612,412,691)	FY 20x15	($7,458,252,764)
FY 20x8	($4,000,806,447)	FY 20x16	($8,741,714,300)

Section 144.1050 – Sales Tax Increase
This proposal would increase the state sales tax rate by 0.25% if a qualifying constitutional amendment has created a "tax reform fund" and if a reduction under section 143.011.6 has been triggered. The sales tax increase will occur in the same tax year as the rate reduction under section 143.011.6.

The language states "…there shall be…a one-tenth of one percent increase in all state sales and use taxes imposed under this state law…". B&P notes that the state has four distinct sales tax levies. A 3% levy (Section 144.020) deposited into GR or motor vehicle funds, a 1% levy (Section 144.701) deposited into the School District Trust Fund, and 0.225% for two constitutional (DNR and MDC) levies.

As both the 3% and 1% state levies are imposed under Chapter 144, B&P assumes that both will be increased by 0.1% each time a trigger is met under Section 32.073. Table 8 shows the estimated sales tax rates throughout the implementation of this proposal.

Table 8: State Sales Tax Rate Increase

Tax Year	General 3%	Education 1%	Total State Rate
TY 20x1	3.250%	1.250%	4.725%
TY 20x2	3.500%	1.500%	5.225%
TY 20x3	3.750%	1.750%	5.725%
TY 20x4	4.000%	2.000%	6.225%

Therefore, B&P estimates that once fully implemented the general 3.0% rate will be increased to 4.0% and the 1% education tax rate will be increased to 2.0%.

B&P notes that the 3% general tax on tangible goods is deposited into the state General Revenue (GR) fund. However, the 3% general tax on motor vehicles, trailers, boats, and outboard motors are deposited into multiple road related funds.

Tangible Personal Property Sales Tax – 3% General Rate
In FY23, GR sales tax collections were $2,943,649,779. Therefore, B&P estimates that each 0.25% increase in the 3% sales tax rate could generate additional GR revenues of $245,304,148. Once fully implemented, this provision could increase GR by $981,216,593.

Tangible Personal Property Sales Tax – 1% Education Rate
In FY23, Education (SDTF) sales tax collections, less MV collections, were $1,137,793,328. Therefore, B&P estimates that each 0.25% increase in the 1% sales tax rate for tangible personal property could generate additional SDTF revenues of $284,448,332. Once fully implemented, this provision could increase SDTF by $1,137,793,328.

Motor Vehicle Sales Tax – 3% General Rate
B&P notes that the 3% tax on motor vehicles is deposited into the State Road Bond Fund (50%); the State Road Fund (36.5%); the State Transportation Fund (1%); and the Fuel Local Deposit Fund (FLOYD)(12.5%) which is then distributed to local jurisdictions.

In FY23, the state 3% MV sales tax collections were $398,632,865. Therefore, B&P estimates that each 0.25% increase in the 3% sales tax rate could generate additional MV sales tax revenues of $33,219,405. Once fully implemented, this provision could increase MV sales tax revenues by $132,877,622.

Motor Vehicle Sales Tax – 1% Education Rate
B&P notes that the 1% tax on motor vehicles is deposited into the School District Trust Fund (50%); the State Road Fund (36.5%); the State Transportation Fund (1%); and the Fuel Local Deposit Fund (FLOYD)(12.5%) which is then distributed to local jurisdictions.

In FY23, B&P estimates that the 1% MV sales tax (for education) were $132,877,622. Therefore, B&P estimates that each 0.25% increase in the 1% MV sales tax rate could generate additional MV sales tax revenues of $33,219,405. Once fully implemented, this provision could increase MV sales tax revenues by $132,877,622.

Sales Tax Summary
B&P estimates that this provision could increase state funds by $587,886,440 and GR by $245,304,148 in FY1. Once fully implemented (after 4 triggers) this provision could increase state revenues by $2,351,545,761 and GR by $981,216,593 annually. In addition, this provision could increase local funding by $33,219,404 annually once fully implemented. Table 9 shows the estimated impact by tax year.

Table 9: Sales Tax Impact by Tax Year

Tax Year	GR	Education*	State Road Bond Fund	State Road Fund	State Transport Fund	FLOYD (Local)
TY 20x1	$245,304,148	$301,058,035	$16,609,703	$24,250,166	$664,388	$8,304,851
TY 20x2	$490,608,297	$602,116,070	$33,219,406	$48,500,332	$1,328,776	$16,609,702
TY 20x3	$735,912,445	$903,174,105	$49,829,109	$72,750,498	$1,993,164	$24,914,553
TY 20x4	$981,216,593	$1,204,232,140	$66,438,812	$97,000,664	$2,657,552	$33,219,404

**Includes both 1% tax on tangible personal property and half of the 1% tax on motor vehicles.*

However, because this proposal would start on January 1st of a tax year, this will impact collections in FY1. Based on actual collections data, B&P estimates that 50% of sales taxes are paid during fiscal year 1 and 50% are paid during fiscal year 2. B&P notes that sales tax collections are one month behind actual sales.

Therefore, B&P estimates that provision may increase state revenues in FY1 by $244,952,684 and GR by $102,210,062. Once fully implemented (after 4 triggers) this provision could increase state revenues by $2,351,545,761 and GR by $981,216,593 annually. In addition, this provision could increase local funding by $33,219,404 annually once fully implemented. Table 10 shows the estimated impact by fiscal year

Table 10: Sales Tax Impact by Fiscal Year

Fiscal Year	GR	Education*	State Road Bond Fund	State Road Fund	State Transport Fund	FLOYD (Local)
FY 20x1	$102,210,062	$125,440,848	$6,920,710	$10,104,236	$276,828	$3,460,355
FY 20x2	$347,514,210	$426,498,883	$23,530,413	$34,354,402	$941,216	$11,765,206
FY 20x3	$592,818,359	$727,556,918	$40,140,116	$58,604,568	$1,605,604	$20,070,057
FY 20x4	$838,122,507	$1,028,614,953	$56,749,819	$82,854,734	$2,269,992	$28,374,908
FY 20x5	$981,216,593	$1,204,232,140	$66,438,812	$97,000,664	$2,657,552	$33,219,404

**Includes both 1% tax on tangible personal property and half of the 1% tax on motor vehicles.*

Bill Summary

General Revenue
B&P estimates that this proposal could decrease GR by $357,333,367 in FY25. Once the mandatory changes have fully implemented, this proposal could decrease GR by $960,558,011 annually. If a qualifying constitutional amendment is voter approved, this proposal could reduce GR by $7,692,485,725 once fully implemented. Table 11 shows the estimated impact to GR by fiscal year.

Table 11: Summary Impact - General Revenue

Fiscal Year	Individual Income Tax	Corporate - Fed Tax Deduction	Sales Tax	Total GR Impact
2025	($357,333,367)	$0	$0	($357,333,367)
2026	($848,938,375)	$68,011,982	$0	($780,926,393)
2027	($884,973,478)	$68,011,982	$0	($816,961,496)
2028	($942,890,513)	$68,011,982	$0	($874,878,531)
2029	($955,368,119)	$68,011,982	$0	($887,356,136)
2030	($1,028,570,094)	$68,011,982	$0	($960,558,111)
FY 20x1	($1,281,881,797)	$68,011,982	$102,210,062	($1,111,659,753)
FY 20x2	($1,671,424,398)	$68,011,982	$347,514,210	($1,255,898,206)
FY 20x3	($2,059,980,327)	$68,011,982	$592,818,359	($1,399,149,986)
FY 20x4	($2,448,719,471)	$68,011,982	$838,122,507	($1,542,584,982)
FY 20x5	($2,837,783,709)	$68,011,982	$981,216,593	($1,788,555,134)
FY 20x6	($3,225,254,576)	$68,011,982	$981,216,593	($2,176,026,001)
FY 20x7	($3,612,412,691)	$68,011,982	$981,216,593	($2,563,184,116)
FY 20x8	($4,000,806,447)	$68,011,982	$981,216,593	($2,951,577,872)
FY 20x9	($4,387,752,261)	$68,011,982	$981,216,593	($3,338,523,686)
FY 20x10	($4,773,973,804)	$68,011,982	$981,216,593	($3,724,745,229)
FY 20x11	($5,159,469,651)	$68,011,982	$981,216,593	($4,110,241,076)
FY 20x12	($5,544,414,719)	$68,011,982	$981,216,593	($4,495,186,144)
FY 20x13	($5,928,172,575)	$68,011,982	$981,216,593	($4,878,944,000)
FY 20x14	($6,309,021,221)	$68,011,982	$981,216,593	($5,259,792,646)
FY 20x15	($7,458,252,764)	$68,011,982	$981,216,593	($6,409,024,189)
FY 20x16	($8,741,714,300)	$68,011,982	$981,216,593	($7,692,485,725)

State and Local Revenues
B&P estimates that this proposal could decrease state revenues by $357,333,367 in FY25. Once the mandatory changes have fully implemented, this proposal could decrease state revenues by $960,558,011 annually. If a qualifying constitutional amendment is voter approved, this proposal could reduce state revenues by $6,322,156,557 once fully implemented. Table 12 shows the estimated impact by fiscal year.

Table 12: Net Impact by Fiscal Year

Fiscal Year	GR	Education*	State Road Bond Fund	State Road Fund	State Transport Fund	FLOYD (Local)
2025	($357,333,367)	$0	$0	$0	$0	$0
2026	($780,926,393)	$0	$0	$0	$0	$0
2027	($816,961,496)	$0	$0	$0	$0	$0
2028	($874,878,531)	$0	$0	$0	$0	$0
2029	($887,356,136)	$0	$0	$0	$0	$0
2030	($960,558,111)	$0	$0	$0	$0	$0
FY 20x1	($1,111,659,753)	$125,440,848	$6,920,710	$10,104,236	$276,828	$3,460,355
FY 20x2	($1,255,898,206)	$426,498,883	$23,530,413	$34,354,402	$941,216	$11,765,206
FY 20x3	($1,399,149,986)	$727,556,918	$40,140,116	$58,604,568	$1,605,604	$20,070,057
FY 20x4	($1,542,584,982)	$1,028,614,953	$56,749,819	$82,854,734	$2,269,992	$28,374,908
FY 20x5	($1,788,555,134)	$1,204,232,140	$66,438,812	$97,000,664	$2,657,552	$33,219,404
FY 20x6	($2,176,026,001)	$1,204,232,140	$66,438,812	$97,000,664	$2,657,552	$33,219,404
FY 20x7	($2,563,184,116)	$1,204,232,140	$66,438,812	$97,000,664	$2,657,552	$33,219,404
FY 20x8	($2,951,577,872)	$1,204,232,140	$66,438,812	$97,000,664	$2,657,552	$33,219,404
FY 20x9	($3,338,523,686)	$1,204,232,140	$66,438,812	$97,000,664	$2,657,552	$33,219,404
FY 20x10	($3,724,745,229)	$1,204,232,140	$66,438,812	$97,000,664	$2,657,552	$33,219,404
FY 20x11	($4,110,241,076)	$1,204,232,140	$66,438,812	$97,000,664	$2,657,552	$33,219,404
FY 20x12	($4,495,186,144)	$1,204,232,140	$66,438,812	$97,000,664	$2,657,552	$33,219,404
FY 20x13	($4,878,944,000)	$1,204,232,140	$66,438,812	$97,000,664	$2,657,552	$33,219,404
FY 20x14	($5,259,792,646)	$1,204,232,140	$66,438,812	$97,000,664	$2,657,552	$33,219,404
FY 20x15	($6,409,024,189)	$1,204,232,140	$66,438,812	$97,000,664	$2,657,552	$33,219,404
FY 20x16	($7,692,485,725)	$1,204,232,140	$66,438,812	$97,000,664	$2,657,552	$33,219,404

Officials from the **Department of Commerce and Insurance** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** note 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 $5,000. 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 its 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.

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2028)
GENERAL REVENUE FUND				
Costs - §§143.011-144.1050 -DOR - System and form upgrades p. (13)	($17,846)	$0	$0	$0
Revenue Reduction - §143.011 - Individual income tax rate reduction (flat tax + current scheduled reductions) p. (9)	($357,333,367)	($848,938,375)	($884,973,478)	($942,890,513)
Revenue Savings - §143.171 Disallowance of Federal Income Tax Deduction p. (10)	$0	$68,011,982	$68,011,982	$68,011,982
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($357,351,213)**	**($780,926,393)**	**($816,961,496)**	**($874,878,531)**

*Additional individual income tax rate changes and sales tax rate changes could occur beyond FY 2028 (pending voter approval/revenue growth triggers).

FISCAL IMPACT – Local Government	FY 2025 (10 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2028)
	$0	**$0**	**$0**	**$0**

FISCAL IMPACT – Small Business

Small businesses' taxation would be impacted by this proposal.

FISCAL DESCRIPTION

Beginning January 1, 2025, a 4% tax will be imposed on all taxable income of every Missouri resident. The Department of Revenue will adjust the appropriate tax rates to effectuate the provisions of this bill.

Upon adoption of a Constitutional amendment authorizing the creation of a surplus revenue fund, in addition to all other existing rate reductions currently in statute, beginning with the 2025 calendar year, the new tax rate of 4% may be reduced by one quarter of a percent. Such a reduction will occur only if the amount of net general revenue collected in the previous fiscal year meets the trigger threshold of $20 million in surplus revenue and the Tax Reform Fund has reached and maintained an amount of $250 million (Section 143.011, RSMo).

Beginning January 1, 2025, there will be no Federal income tax deduction for any individual or corporate taxpayer (Section 143.171).

If the surplus conditions the Tax Reform Fund established in the Missouri Constitution are met and a personal income tax decrease is triggered as specified in this bill, there will be a one-quarter of one percent increase in all states sales and use tax, effective January 1st of the calendar year immediately following the close of the fiscal year in which the surplus was realized. Such an increase can occur only once per calendar year. The increased sale and use tax rates will be capped once the total amount reaches a rate of 6.225% (Section 144.1050).

This bill contains a contingent effective date for Section 144.1050.

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

Department of Revenue
Office of Administration - Budget and Planning
Office of the Secretary of State
Joint Committee on Administrative Rules
Department of Natural Resources
Department of Commerce and Insurance

Julie Morff
Director
March 11, 2024

Ross Strope
Assistant Director
March 11, 2024

KLP:LR:OD