COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1412H.01I
Bill No.: HB 798
Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Department of Revenue; Tax Incentives
Type: Original
Date: January 22, 2025

Bill Summary: This proposal modifies provisions relating to income tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2030)
General Revenue*	$124,525,754 or $33,012,495	$78,455,673 or ($139,433,038)**	$49,058,453 or ($77,316,999)**	$139,687,050
Total Estimated Net Effect on General Revenue	**$124,525,754 or $33,012,495**	**$78,455,673 or ($139,433,038)****	**$49,058,453 or ($77,316,999)****	**$139,687,050**

***Oversight** notes, currently, the top individual income tax rate (4.70% in TY 2025) 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 4.7% rate.
****Oversight** is unable to determine if the proposed flat tax will be reduced by 0.15% (per SB 3) for tax years 2026 and 2027. Oversight will show DOR's estimated impact of this proposal at 4.7% <u>or</u> at 4.55% for tax years 2026 and 2027. Oversight will show DOR's estimated impact for tax years 2028 and 2029 throughout the implementation of SB 3, assuming a top rate of 4.55%.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2030)
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 2026	FY 2027	FY 2028	Fully Implemented (FY 2030)
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2030)
General Revenue - DOR	1 FTE	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**1 FTE**	**1 FTE**	**1 FTE**	**1 FTE**

☒ 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 2026	FY 2027	FY 2028	Fully Implemented (FY 2030)
Local Government	**$0**	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Due to time constraints, **Oversight** was unable to receive some agency responses in a timely manner and performed limited analysis. Oversight has presented this fiscal note on the best current information that we have or on information regarding a similar bill(s). Upon the receipt of additional information, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

Responses regarding the proposed legislation as a whole

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

Section 144.011 would replace Missouri's graduated individual income tax structure with a flat income tax rate. Beginning with tax year 2026, the rate of tax will 4.7% or the top rate of tax as in effect on January 1, 2026, whichever rate is less. In addition, this proposal would allow for a 0.15% reduction to the rate of tax pending net GR growth.

B&P notes that **existing subsection 143.011.4** is deleted on the effective date of the bill (August 28, 2025), but the replacement language would not become effective until January 1, 2026. Section 131.011.4 contains three 0.1% additional rate reductions created under SB 3 (2022). The first of which (reducing the top rate to 4.7% for tax year 2025) has been triggered and implemented.

Based on previous court precedent, income earned between January 1, 2025 and August 28, 2025 would be taxed at the current 4.7% rate, while income earned between August 28, 2025 and December 31, 2025 would be taxed at a top rate of 4.8%. For the purpose of this fiscal note, B&P will assume that income is generally earned equally throughout a year and will reflect 33.33% of income (4 out of 12 months) as earned during the higher tax rate period.

New subsection 143.011.4 would allow for an additional 0.15% reduction to the tax rate, beginning calendar year 2025, dependent on net general revenue growth. B&P notes that this reduction was originally triggered for tax year 2024 when the top rate was reduced from 4.95% to 4.8%. This language would essentially reset the reduction so that it could occur again under this new tax structure.

However, it is unclear whether the reduction would begin immediately or if net general revenue would have to grow by the $175 million after the effectiveness of this proposal. B&P notes that the language "beginning with the 2024 calendar year" creates this confusion as FY23 revenues were high enough to trigger the original reduction.

For the purpose of this fiscal note, B&P will reflect two potential outcomes.

- The reduction is triggered immediately, and the tax rate goes to 4.55% (4.7% - 0.15%) starting with tax year 2026.
- The reduction must be triggered after the bill becomes effective. Leaving the tax rate at 4.7% through at least tax year 2026.

Based on current revenue forecasts and average revenue growth, B&P estimates that net general revenue growth will not be high enough to trigger another reduction until at least tax year 2028 (FY27 revenue). Table 1 shows the estimated tax rates throughout the implementation of this proposal.

Table 1: Proposed Tax Rates

Tax Year	Current	Proposed Rate
2025*	4.7%	4.7% - Current Law (1/2025 - 8/2025) 4.8% - Proposal (9/2025 - 12/2025)
2026	4.7%	4.7% or 4.55%
2027	4.7%	4.7% or 4.55%
2028	4.6%	4.55%
2029	4.5%	4.55%

*The repeal of 143.011.4 would become effective 8/28/2025. While the new language would not begin until 1/1/2026.

Subsection 143.011.5 would end the bracket inflation adjustment after tax year 2025. B&P notes that Section 143.021 sets the minimum amount of taxable income at $1,000 plus the inflation adjustment under this subsection. As of tax year 2025, the minimum taxable income amount is $1,313. Therefore, the new flat tax will be levied on all incomes above $1,313 for every tax year going forward, beginning with tax year 2026.

Section 143.131 would increase the standard deduction $4,000 beginning with tax year 2026.

Section 143.177 would repeal the Missouri Working Family Tax Credit beginning August 28, 2025. B&P notes that because these credits are not claimed until annual income tax returns are filed in 2026, this repeal will be effective for tax year 2025.

Using tax year 2022 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 increase GR by $95,678,448 for tax year 2025. Once SB 3 (2022) would have been fully implemented, this proposal could increase GR by $142,455,934 annually. Table 2 shows the estimated impact by tax year.

Table 2: Estimated Impact by Tax Year

Tax Year	GR Impact Low		High
2025*	$95,678,442		$95,678,442
2026	($141,459,972)	or	$77,013,475
2027	($131,634,816)	or	$86,838,631
2028	$3,033,119		$3,033,119
2029	$142,455,934		$142,455,934

*The repeal of Section 143.177 would become effective prior to taxpayers filing 2025 tax returns.
**Low - 0.15% reduction triggered immediately.
**High - 0.15% reduction not triggered until tax year 2028.

B&P notes that tax year 2025 includes the full impact of repealing the Missouri Working Family tax credit and 33.33% of income taxed at 4.8% rather than the current 4.7%.

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. (B&P notes this applies to tax year 2026+ changes.)

B&P notes that the repeal of subsection 143.011.4 would take effect the last four months of the tax year, and within FY26. In addition, the Working Family tax credit is not claimed until annual returns are filed. Therefore, B&P will reflect the full impact from tax year 2025 as occurring during FY26.

Under the above assumptions, B&P estimates that this provision could increase GR by $36,265,254 (tax rate 4.55%) or $128,024,102 (tax rate 4.7%) in FY26. Once SB 3 (2022) would have been fully implemented, this proposal could increase GR by $142,455,934 annually. Table 3 shows the estimated impact from this section by fiscal year.

Table 3: Estimated Impact by Fiscal Year

Fiscal Year	GR Impact Low		High
2026	$36,265,254		$128,024,102
2027	($137,333,407)	or	$81,140,040
2028	($75,074,283)	or	$51,640,316

2029	$61,590,702		$61,590,702
2030	$142,455,934		$142,455,934

*The repeal of Section 143.177 would become effective prior to taxpayers filing 2025 tax returns.
**Low - 0.15% reduction triggered immediately.
**High - 0.15% reduction not triggered until tax year 2028.

Officials from the **Department of Revenue (DOR)** note this proposal implements immediate changes to the individual income tax rate in tax year 2025, some in tax year 2026 and will change how calculations will operate on the individual income tax returns.

It should be noted that SB 3 adopted in 2022, set the current individual income tax rate top bracket at 4.95% in TY 2023 (per 143.011.2) and set it at 4.8% in TY 2024 (per 143.011.3) and based on certain revenue triggers allows the tax rate to continue to fall 0.1% until it hits 4.5%. The tax rate for tax year 2025 is 4.7% based on that SB 3's language. Based on the current revenue forecasts and for fiscal note purposes only, DOR shows the final two SB 3 rate reductions occurring in tax year 2028 (4.6%) and 2029 (4.5%).

Starting January 1, 2026, (tax year 2026) this proposal would eliminate the current individual income tax brackets with its graduated tax rates and replace it with a new flat 4.7% tax on all income over $1,000 per Section 143.021. This new flat tax is being added as a new Section 143.011.3

It should be noted, this proposal is repealing the current SB 3 reductions (found in SB 3's 143.011.4). Additionally, this proposal is renumbering SB 3's section 143.011.3 to 143.011.4 which allowed an additional 0.15% reduction of the individual income tax rate starting with tax year 2024. Due to no starting date being listed on these specific changes, they will become effective August 28, 2025.

The repealing of the language that allowed the current individual income tax rate to drop to 4.7% in 2025 would be repealed as of August 28, 2025. That would in essence change the 4.7% rate for 2025 back to the 2024 individual income tax rate of 4.8% for the rest of the tax year starting on August 28, 2025. So, for tax year 2025, there would be 2 tax rates. The first from January 1st – August 27, 2025, the individual income tax rate would be 4.7% but would increase to 4.8% for August 28th – December 31, 2025.

DOR notes that income is generally earned equally throughout a year and will reflect 33.33% of income (4 out of 12 months) as earned during the higher tax rate period, for this fiscal note.

DOR notes that this proposal's new language in 143.011.3 allows the rate to be 4.7% or the "top rate of tax as in effect January 1, 2026, whichever is less". This language assumes that the current SB 3 cuts could result in an additional cut to the individual income tax rate prior to the passage of this proposal. It should be noted that this proposal removes the SB 3 language effective August 28, 2025, which is prior to the calculation of the SB 3 impacts that happen in October each year. Therefore, this proposal could not set a rate lower than the newly created flat tax rate of 4.7% for all future years.

This proposal then allows the language in 143.011.4 to impact the rates established in 143.011.3. It says an additional rate reduction beginning with tax year 2024 would reduce the rate an additional 0.15%. DOR assumes that since this section does not have an effective date listed in it, it would become effective August 28, 2025.

This language was originally part of the SB 3 language, most of which is repealed by this proposal. However, this language remains. It is unclear from this proposal's wording and the sponsor's intent as to whether the newly created flat tax should be reduced by this additional 0.15% immediately upon becoming effective or in the future based on revenue triggers that are listed. DOR will show the impact of this proposal at 4.7% and at 4.55% for tax years 2026 and 2027. DOR notes that for fiscal note purposes, DOR show the impact of all proposals during the implementation of SB 3 so will show the impact as 4.55% for tax year 2028 and 2029.

The newly proposed tax rates would be:

Table 1: Proposed Tax Rates

Tax Year	Current	Proposed Rate
2025*	4.7%	4.7% - Current Law (1/2025 - 8/2025) 4.8% - Proposal (9/2025 - 12/2025)
2026	4.7%	4.7% or 4.55%
2027	4.7%	4.7% or 4.55%
2028	4.6%	4.55%
2029	4.5%	4.55%

*The repeal of 143.011.4 would become effective 8/28/2025. While the new language would not begin until 1/1/2026.

Additionally, this proposal repeals the MO Working Family Tax Credit in Section 143.177 effective August 28, 2025 (tax year 2025). DOR notes that the credit is claimed on the return starting January 1st after the tax year is completed. Given the timing of this proposal, DOR assumes that taxpayers will not have enough time to adjust their withholdings in FY 2025 to prepare for these changes and therefore DOR will show the full impact will occur in FY 2026.

This proposal staring in tax year 2026 will increase the MO standard deduction. The new standard deduction will be the allowable federal deduction plus $4,000 for filers.

The Department used its internal Income Tax Model that contains confidential taxpayer data for tax year 2022 data (the most complete data available) to estimate the fiscal impact of the changes from this proposal.

DOR estimates the impact of the change from the 4.8% increased individual income tax rate in part of tax year 2025 and the repeal of the MO Working Family Tax Credit for tax year 2025 to result in increased general revenue of $93,378,254 in tax year 2025.

DOR estimates all the changes of this proposal would result in a loss to general revenue through the implementation of SB 3. Based on DOR 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	Impact to General Revenue	
	Low (4.7% to 4.55%)	High (4.55%)
2026	$124,635,639	$33,122,380
2027	$78,549,594	($139,339,117)
2028	$49,153,938	($77,221,514)
2029	$59,108,374	$59,108,374
2030	$139,782,535	$139,782,535

DOR notes that these changes will require DOR to update the department's MO-1040 ($2,200), website and Individual Income tax computer program ($21,981).

Oversight does not have any information to the contrary. Therefore, Oversight will reflect the above administrative costs to DOR in order to implement this proposal.

<u>**Section 143.031 - Calculation of Total Missouri Combined Adjusted Gross Income**</u>

Officials from the **Department of Revenue (DOR)** note Section 143.031 requires that if a couple file a combined return at the federal level they must file a combined return at the state level. Currently, both spouses report their income on the same line but use different boxes to separate which belongs to which. This proposal would require DOR to have separate lines on the return for each spouse. This will not impact general revenue as the same calculations would occur. However, this could make the form more confusing to taxpayers and potentially cause more individual income tax return errors. DOR assume the need for 1 additional Associate Customer Service Representative ($37,020) for every 5,700 returns generating correspondence. DOR will seek the additional FTE through the appropriation process based on the number of additional correspondence generated.

The changing of the form to accommodate single entry of data down the page may result in changes to the computer program of up to $20,000**.**

Oversight does not have any information to the contrary. Therefore, Oversight will reflect the above (1) FTE and administrative costs to DOR in order to implement this proposal.

Section 143.131 - Missouri Standard Deduction

Oversight notes beginning January 1, 2026, this bill increases the Missouri standard deduction to the allowable federal standard deduction plus $4,000. According to the IRS state tax data, 2,652,090 returns claimed the standard deduction.

Oversight notes the fiscal impact of this proposal depends upon the top rate of tax applied. Oversight assumes a top income tax rate of 4.7% in tax year 2025 (FY 2026) and future income tax rate reductions from SB 3 (2022) will trigger consecutively (4.6% in FY 2027 and 4.5% in FY 2028+).

Therefore, **Oversight** assumes the following fiscal impact:

Per Tax Year	Tax Rate		
	4.70%	4.60%	4.50%
Fiscal impact	($498,592,920)	($487,984,560)	($477,376,200)

Oversight notes both DOR and B&P's estimates include data from DOR and B&P'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 B&P and DOR. Therefore, for the purpose of this fiscal note, Oversight will utilize DOR's estimated impact for all income tax changes in this proposal.

Section 143.177 - Repeal of the Missouri Working Family Tax Credit Act

Oversight notes this section repeals the Missouri Working Family Tax Credit Act.

This credit was established in SB 153 & 97 (2021) allowing eligible taxpayer to receive a tax credit equal to a percentage of the amount such taxpayer would receive under the Federal Earned Income Tax Credit.

Oversight notes "Eligible Taxpayer" was defined as "a resident individual with a filing status of single, head of household, widowed, or married filing combined who is subject to the tax imposed under Chapter 143… and who is allowed a Federal Earned Income Tax Credit".

At the time, the percentage of the Federal Earned Income Tax Credit to be allowed as a tax credit shall be ten percent (10%), which may be increased to twenty percent (20%). The maximum percentage that may be claimed as a tax credit shall be twenty percent (20%).

Oversight notes this section stated the initial percentage of tax credit that can be claimed and any increase in the percentage that may be claimed shall only occur if the amount of net general revenue collected in the previous fiscal year exceeds the highest amount of net general revenue collected in any of the three fiscal years prior to such fiscal year by at least one hundred fifty million dollars ($150,000,000).

Oversight notes the trigger conditions were met and as of TY 2024 (FY 2025) eligible taxpayers could receive up to a 20% refund.

Oversight notes the Missouri Department of Revenue is to prepare an annual report containing statistical information regarding the tax credits issued for the previous tax year, including the total amount of revenue expended, the number of credits claimed, and the average value of the credits issued to taxpayers whose earned income falls within various income ranges.

Oversight notes that according to the SOI IRS Individual tax data, Missouri received 1.134 billion in EITC refunds for Tax Year 2022 (the most recent year available). Therefore, Oversight assumes the amount of tax credits no longer redeemed as a result of this proposal at greater than or less than $226,800,000 ($1,134,000,000 * 20%).

Oversight notes both DOR and B&P's estimates include data from DOR and B&P'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 B&P and DOR. Therefore, for the purpose of this fiscal note, Oversight will utilize DOR's estimated impact for all income tax changes in this proposal.

FISCAL IMPACT – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY 2030)
GENERAL REVENUE				
Costs - DOR				Could exceed…
Personnel Service	($30,850)	($37,760)	($38,516)	($38,516)
Fringe Benefits	($25,525)	($30,926)	($31,229)	($31,229)
Expense & Equipment	($53,510)	($25,235)	($25,740)	($25,740)
Total Costs -	($109,885)	($93,921)	($95,485)	($95,485)
FTE Change	1 FTE	1 FTE	1 FTE	1 FTE

FISCAL IMPACT – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY 2030)
Revenue Change - §143.011 - Changes to the individual income tax (flat tax rate, increase of standard deduction, disallowance of credit,)	$124,635,639 or $33,122,380	$78,549,594 or ($139,339,117)	$49,153,938 or ($77,221,514)	$139,782,535
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	**$124,525,754 or $33,012,495**	**$78,455,673 or ($139,433,038)**	**$49,058,453 or ($77,316,999)**	**$139,687,050**
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE	1 FTE

FISCAL IMPACT – Local Government	FY 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY 2030)
	$0	**$0**	**$0**	

FISCAL IMPACT – Small Business

Small businesses' taxation could be impacted by this proposal.

FISCAL DESCRIPTION

Currently, the top rate of income tax may be reduced over a period of years if certain triggers are met.

Beginning January 1, 2026, a flat rate of 4.7% will be imposed on all taxable income of Missouri residents, or the top rate of tax in effect January 1, 2026, whichever is less. Modifications to the flat rate apply only to tax years that begin on or after a modification takes effect. This bill also removes all tax deduction triggers and removes all existing taxable income brackets.

Currently, the Missouri combined taxable income on a combined return must include all of the income and deductions of the husband and wife, and Missouri taxable income of each spouse is an amount that is the same proportion of their Missouri combined taxable income as the Missouri adjusted gross income of that spouse bears to their Missouri combined adjusted gross income.

Beginning January 1, 2026, there will be one column for the calculation of total Missouri combined adjusted gross income on a Missouri income tax return.

Beginning January 1, 2026, this bill increases the Missouri standard deduction to the allowable federal standard deduction plus $4000.

This bill also repeals the Missouri Working Family Tax Credit Act.

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

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January 22, 2025

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January 22, 2025

KLP:LR:OD