COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6854H.02P
Bill No.: Perfected HCS for HJRs 173 & 174
Subject: Taxation and Revenue - Income; Taxation and Revenue - General; Taxation and Revenue - Sales and Use; Constitutional Amendments
Type: Original
Date: March 11, 2026

Bill Summary: This proposal proposes a constitutional amendment relating to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND

FUND AFFECTED	FY 2027	FY 2028	FY 2029	Fully Implemented (FY Unknown)
General Revenue**	$0 or (More than $9,000,000)*	$0 or ($49,466,908)	$0 or ($176,152,582 to $1,046,092,093)	$0 or ($8,510,330,087)
Total Estimated Net Effect on General Revenue	**$0 or (More than $9,000,000)***	**$0 or ($49,466,908)**	**$0 or ($176,152,582 to $1,046,092,093)**	**$0 or ($8,510,330,087)**

*The potential fiscal impact of "(More than $9,000,000)" would be realized only if a special election were called by the Governor to submit this joint resolution to voters.
**Oversight notes the state individual income tax rate (4.7% in TY 2026) is to be reduced in annual increments (if certain triggers are met) until it reaches 4.5% pursuant to SB 3 (2022). This proposal allows additional growth dependent rate reductions until the individual income tax rate is zero, subject to the adoption of a constitutional amendment. Oversight is unable to determine if/when future reductions will occur or how many reductions will occur per year.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS

FUND AFFECTED	FY 2027	FY 2028	FY 2029	Fully Implemented (FY Unknown)
Conservation Commission Fund (1609)	$0	$0 or (could exceed $9,715,985)	$0 or (could exceed $9,715,985)	$0 or (could exceed $9,715,985)
Parks and Soils State Sales Tax Fund(s) (1613 & 1614)	<u>$0</u>	<u>$0 or (could exceed $44,506,414)</u>	<u>$0 or (could exceed $44,506,414)</u>	<u>$0 or (could exceed $44,506,414)</u>
Total Estimated Net Effect on <u>Other</u> State Funds	**$0**	**$0 or (Could exceed $54,222,399)**	**$0 or (Could exceed $54,222,399)**	**$0 or (Could exceed $54,222,399)**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS

FUND AFFECTED	FY 2027	FY 2028	FY 2029	Fully Implemented (FY Unknown)
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 2027	FY 2028	FY 2029	Fully Implemented (FY Unknown)
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 2027	FY 2028	FY 2029	Fully Implemented (FY Unknown)
Local Government	**$0**	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Article X, Section 4(d) – Individual Income Tax Rate

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

This proposal requires voter approval at the November 2026 election. B&P assumes that if approved, this proposal would become effective starting January 1, 2027.

This fiscal note assumes that no replacement sources are considered in the calculation of the revenue impact from eliminating the individual income tax.

B&P notes this provision would reduce the individual income tax rate by 0.01% for every $20 million in net general revenue collected over the FY25 net GR collection amount. Up to 1.6% in total reductions may occur per year. Both the $20 million threshold and the FY25 collections amount are to be adjusted annually for inflation.

B&P notes that net GR collections for FY25 were $13,430,978,645. Table 1 shows the estimated collections amounts required to trigger the first 0.01% reduction per year.

Table 1: Estimated Annual Revenue Needed

Fiscal Year	$20M	FY25	Total Need	Tax Year Impacted
FY27	$20,000,000	$13,430,978,645	$13,450,978,645	TY28
FY28	$20,400,000	$13,699,598,218	$13,719,998,218	TY29
FY29	$20,808,000	$13,973,590,182	$13,994,398,182	TY30
FY30	$21,224,160	$14,253,061,986	$14,274,286,146	TY31
FY31	$21,648,643	$14,538,123,226	$14,559,771,869	TY32

*Assumes 2% annual inflation

B&P notes that if approved, this proposal would become effective before the end of FY27. Therefore, B&P assumes that tax year 2028 would be the first potential tax year with a reduction, based on FY27 net general revenue growth.

The consensus revenue forecast (CRE) for FY27 is $13.65 billion, which is nearly $200 million more than FY25 net GR collections. Therefore, B&P estimates that the individual income tax rate could be reduced by 0.09% for tax year 2028.

B&P further notes that there are still two 0.1% reductions under current law waiting to be triggered based on different net GR growth requirements. For the purpose of this fiscal note, B&P will assume that the first 0.1% reduction will occur for tax year 2029 and the second 0.1%

reduction will occur for tax year 2030. To trigger each 0.1% reduction, net GR collections must grow by at least $200 million, adjusted for inflation, over collections in the previous fiscal year. For tax year 2026, the annual trigger amount was $269.7 million. Based on this information, if the current law reductions are triggered, B&P estimates that the tax rate for tax year 2029 would be further reduced by 0.10% and for tax year 2030 it could be further reduced by 0.11% under this proposal.

B&P is unable to determine how fast or slow the remaining triggers will occur as the elimination of the individual income tax is phased in. For the purpose of this fiscal note, B&P will show the impact as if one 0.01% reduction occurs versus the full 1.6% allowable reduction each year. Table 2 shows the estimated tax rates by tax year.

Table 2: Potential Income Tax Rates

<table>
<tr><th rowspan="2">Tax Year</th><th rowspan="2">Current Law</th><th colspan="2">Slow Growth</th><th colspan="2">High Growth</th></tr>
<tr><th>Reduction</th><th>Rate</th><th>Reduction</th><th>Rate</th></tr>
<tr><td>2027</td><td>4.70%</td><td>---</td><td>4.70%</td><td>---</td><td>4.70%</td></tr>
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<tr><td>2029</td><td>4.60%</td><td>0.10%</td><td>4.41%</td><td>1.60%</td><td>2.91%</td></tr>
<tr><td>2030</td><td rowspan="21">4.50%</td><td>0.11%</td><td>4.20%</td><td>1.60%</td><td>0.00%</td></tr>
<tr><td>20xx</td><td>0.01%</td><td>4.19%</td><td>---</td><td>---</td></tr>
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<tr><td>20x11</td><td>0.01%</td><td>4.08%</td><td>---</td><td>---</td></tr>
<tr><td>20x12</td><td>0.01%</td><td>4.07%</td><td>---</td><td>---</td></tr>
<tr><td>20x13</td><td>0.01%</td><td>4.06%</td><td>---</td><td>---</td></tr>
<tr><td>20x14</td><td>0.01%</td><td>4.05%</td><td>---</td><td>---</td></tr>
<tr><td>20x15</td><td>0.01%</td><td>4.04%</td><td>---</td><td>---</td></tr>
<tr><td>20x16</td><td>0.01%</td><td>4.03%</td><td>---</td><td>---</td></tr>
<tr><td>20x17</td><td>0.01%</td><td>4.02%</td><td>---</td><td>---</td></tr>
<tr><td>20x18</td><td>0.01%</td><td>4.01%</td><td>---</td><td>---</td></tr>
<tr><td>20x19</td><td>0.01%</td><td>4.00%</td><td>---</td><td>---</td></tr>
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FY27 / TY28 - 0.09% based on CRE
FY28 / TY29 - min reduction of 0.10% assumes SB 3 triggered

FY29 / TY30 - min reduction of 0.11% assumes SB 3 triggered
TY 2030 - fast growth, tax rate 1.21% which is below the 1.4% cutoff before the rate applied is 0%.

Based on tax year 2023, the most recent complete year available, B&P estimates that this proposal could reduce individual income tax collections by $120.7 million in tax year 2028. Depending on how fast tax rate reductions are triggered, this proposal could reduce individual income tax collections by $256.0 million to $2.38 billion in tax year 2029. Table 3 shows the estimated impact by tax year.

Table 3: Est. Individual Income Tax Impact by Tax Year

Tax Year	Slow Growth	High Growth
TY 2027	$0	$0
TY 2028	($120,650,996)	($120,650,996)
TY 2029	($256,020,718)	($2,377,824,404)
TY 2030	($410,080,867)	($8,510,330,087)
TY 20xx	($422,393,450)	($8,510,330,087)
TY 20x1	($434,591,714)	($8,510,330,087)
TY 20x2	($446,677,615)	($8,510,330,087)
TY 20x3	($458,645,193)	($8,510,330,087)
TY 20x4	($470,494,947)	($8,510,330,087)
TY 20x5	($482,233,501)	($8,510,330,087)
TY 20x6	($493,842,868)	($8,510,330,087)
TY 20x7	($505,320,368)	($8,510,330,087)
TY 20x8	($516,670,132)	($8,510,330,087)
TY 20x9	($527,900,456)	($8,510,330,087)
TY 20x10	($538,996,630)	($8,510,330,087)
TY 20x11	($549,943,051)	($8,510,330,087)
TY 20x12	($560,747,363)	($8,510,330,087)
TY 20x13	($571,399,493)	($8,510,330,087)
TY 20x14	($581,928,194)	($8,510,330,087)
TY 20x15	($592,305,110)	($8,510,330,087)
TY 20x16	($602,533,942)	($8,510,330,087)
TY 20x17	($612,599,660)	($8,510,330,087)
TY 20x18	($622,525,617)	($8,510,330,087)
TY 20x19	($632,283,027)	($8,510,330,087)
Full Impl.	($8,510,330,087)	($8,510,330,087)

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

41% of individual income taxes are paid during fiscal year 1 and 59% are paid during fiscal year 2.

Therefore, B&P estimates that these provisions could decrease individual income tax collections by $49.5 million in FY28. Once fully implemented, this proposal would reduce individual income tax collections by $8.51 billion. Table 4 shows the estimated impact by fiscal year.

Table 4: Est. Individual Income Tax Impact by Fiscal Year

Tax Year	Slow Growth	High Growth
FY 2027	$0	$0
FY 2028	($49,466,908)	($49,466,908)
FY 2029	($176,152,582)	($1,046,092,093)
FY 2030	($319,185,379)	($4,892,151,734)
FY 20xx	($415,129,026)	($8,510,330,087)
FY 20x1	($427,394,738)	($8,510,330,087)
FY 20x2	($434,591,714)	($8,510,330,087)
FY 20x3	($444,453,640)	($8,510,330,087)
FY 20x4	($463,503,592)	($8,510,330,087)
FY 20x5	($475,307,755)	($8,510,330,087)
FY 20x6	($486,993,342)	($8,510,330,087)
FY 20x7	($498,548,643)	($8,510,330,087)
FY 20x8	($509,973,772)	($8,510,330,087)
FY 20x9	($521,274,565)	($8,510,330,087)
FY 20x10	($532,449,888)	($8,510,330,087)
FY 20x11	($543,484,663)	($8,510,330,087)
FY 20x12	($554,372,819)	($8,510,330,087)
FY 20x13	($565,114,736)	($8,510,330,087)
FY 20x14	($575,716,260)	($8,510,330,087)
FY 20x15	($586,182,730)	($8,510,330,087)
FY 20x16	($596,498,931)	($8,510,330,087)
FY 20x17	($606,660,886)	($8,510,330,087)
FY 20x18	($616,669,302)	($8,510,330,087)
FY 20x19	($626,526,155)	($8,510,330,087)
Full Impl.	($8,510,330,087)	($8,510,330,087)

Oversight notes that B&P uses a 42% split in the first fiscal year and 58% split in the second year to convert the income tax numbers from tax year to fiscal year.

Oversight notes B&P's estimates include data from DOR & 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 DOR & B&P. Therefore, for the purpose of this fiscal note, Oversight will note B&P's estimated impact for this proposal.

<u>Article X Section 26 – Sales and Use Tax</u>

Officials from the **Office of Administration - Budget and Planning (B&P)** note this provision would allow the general assembly to expand sales and use tax to cover additional goods and services beyond what is currently taxable. B&P notes that such expansion is not required to trigger the elimination of the income tax as laid out in Article X, Section 4(b). However, if enacted an expansion could speed up the elimination of the individual income tax beyond the estimates shown above.

Section 26.3 requires political subdivision to adjust their sales / use tax rate, property tax levy, or earnings tax annually to offset increased revenue generated by the expansion of the sales tax base. This annual adjustment would begin January 1, 2029.

Section 26.4 requires that the existing constitutional sales tax rates for MDC (Article IV, Section 30(a)) and for DNR (Article IV, Section 47(a)) be adjusted to produce substantially the same amount of revenue generated during FY24 – FY26, adjusted for inflation. The new rates would become effective January 1, 2028. B&P notes that this adjustment will occur regardless of whether sales tax is expanded.

Section 26.5 would exempt revenue generated from the expansion of sales tax from the calculation under Article X, Section 18(e) – which is the annual limit on new revenue generated by bills passes by the general assembly in a legislative year.

Section 26.5 would also exempt revenues generated by a sales tax expansion from the diversion of sales taxes to state and local highway funds, as required under Article IV, Section 30(b), 30(c), and 30(d). This would allow increased sales taxes on motor vehicle sales to be deposited into general revenue.

Oversight notes this resolution authorizes state and local sales and use taxes to be expanded by legislation to impose taxes on transactions involving any goods or services for the purpose of reducing and eliminating the state resident individual income tax.

Oversight notes this resolution also states beginning January 1, 2029, any political subdivision that imposes a sales or use tax is required to annually adjust certain taxes levied to reduce the amount of revenue generated to a level described in the bill.

Oversight assumes expanding the sales tax base would require additional enabling language. As such, Oversight assumes requirement to adjust local sales or use tax would require additional enabling language. Therefore, Oversight will address fiscal impacts in fiscal notes for such enabling legislation.

Section 26.4. – Constitutional Sales Tax Fund Rates

Oversight notes this resolution states beginning January 1, 2028, each sales and use tax rate imposed directly by this Constitution, with the exception of the rate imposed under Article XIV of this Constitution, shall, in the manner provided by law, be adjusted in order to produce substantially the same amount of tax revenue as the median annual amount of such tax revenue produced for the three state fiscal years ending in 2024, 2025, and 2026, after the amount of tax revenue for each such state fiscal year is adjusted for inflation.

Oversight assumes this provision applies to the Conservation Sales Tax funds and the Park, Soil, and Water Sales Tax funds.

Oversight notes the combined states sales tax is currently distributed as:

General Revenue	3.000%
School District Trust Fund *	1.000%
Conservation Commission Fund	0.125%
Park, Soil & Water Funds	0.100%
Total State Sales Tax	4.225%

*Oversight assumes the School District Trust fund is not a constitutional mandate and therefore is not impacted by this provision.

Oversight notes the following tax revenue amounts for these constitutional funds per DOR's 2024 Annual Report:

Year	Conservation State Sales & Use Tax Revenue	Park, Soil, and Water State Sales & Use Tax Revenue
2022	$132,258,778	$166,503,863
2023	$141,987,347	$113,601,560
2024	$151,703,332	$121,997,449
Median	$141,987,347	$121,997,449

Conservation State Sales & Use Tax Revenue

$141,987,347 - $151,703,332 = -$9,715,985

Park, Soil, and Water State Sales & Use Tax Revenue

$121,997,449 - $166,503,863= -$44,506,414

Oversight assumes the resolution may decrease the amount of sales tax revenue distributed to these funds (pending voter approval). Therefore, Oversight will show a range of $0 (not approved by voters) or could exceed the amount estimated above beginning in FY28.

Officials from the **Missouri Department of Conservation** assume an unknown fiscal impact. The Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax pursuant to Article IV Section 43 (a) of the Missouri Constitution. The Department defers to the Department of Revenue as it is responsible for tax collection and would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Officials from the **Department of Natural Resources** defer to the Department of Revenue for the potential fiscal impact of this proposal.

<u>Responses regarding the proposed legislation as a whole</u>

Officials from the **Department of Revenue (DOR)** assume this is a constitutional amendment that would go to the people at the November 2026 general election. Should the amendment fail to be adopted, this would have no fiscal impact. Should it be adopted it does the following.

Article X Section 4(d)
Section 4(d).1 currently allows the General Assembly to establish an income tax. The income tax can be an individual income tax and/or a corporate income tax. Currently, Missouri has both.

This proposal would add a Section 4(d).2 which institutes a formula to reduce and eliminate the individual income tax by January 1, 2032. The section says that should the individual income tax rate decrease below 1.4% then no individual income tax would be imposed. This section establishes a formula using revenue triggers to reduce the income tax over a period of years.

The income tax rate cut would occur if at least $20 million more in general revenue is collected by the state over the amount collected on June 30, 2025(FY 2025). If that trigger is met, then the tax rate will decrease by one-hundredth of one percent (0.01%). More than one reduction can occur annually based on the amount collected. This proposal requires the $20 million trigger amount and the FY 2025 collection amount be inflation adjusted annually.

DOR notes that the general revenue collections for FY 2025 was $13,430,978,645. DOR uses a 2% inflation rate for fiscal notes. Therefore, the chart would look like this.

Table 1: Estimated Annual Revenue Needed

Fiscal Year	$20M	FY25	Total Need to Trigger	Tax Year Impacted
FY27	$20,000,000	$13,430,978,645	$13,450,978,645	TY28
FY28	$20,400,000	$13,699,598,218	$13,719,998,218	TY29
FY29	$20,808,000	$13,973,590,182	$13,994,398,182	TY30
FY30	$21,224,160	$14,253,061,986	$14,274,286,146	TY31
FY31	$21,648,643	$14,538,123,226	$14,559,771,869	TY32

**Assumes 2% annual inflation*

This proposal if adopted by the voters would become effective on December 1, 2026. Therefore, the first tax year impacted would be tax year 2028. The consensus revenue forecast assumed FY 2027 is $13.65 billion, which is almost $200 million more than the FY 2025 collections used in this calculation. Therefore, based on this proposal, tax year 2028 would see a 0.09% income tax rate reduction.

The General Assembly in SB 3 adopted in 2022, set the current 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 ($200 million) allowed the tax rate to continue to fall 0.1% until it hits 4.5%. The tax rate for tax year 2025 and 2026 is 4.7%. Based on the current revenue forecasts the rate is estimated to be 4.7% in 2027 and 2028. For fiscal note purposes only, DOR shows the final two SB 3 rate reductions occurring in tax year 2029 (4.6%) and 2030 (4.5%). DOR will assume these 2 reductions would also occur in tax year 2029 and 2030.

This proposal does set a limit of 1.6% reduction in a single year. DOR is unable to estimate how quickly or slowly the individual income tax rate reductions will occur under this proposal. For the purpose of the fiscal note, DOR will show a single reduction each year and the full amount of the 1.6% reduction annually.

Potential Income Tax Rates

<table>
<tr><th rowspan="2">Tax Year</th><th rowspan="2">Current Law</th><th colspan="2">Slow Growth</th><th colspan="2">Fast Growth</th></tr>
<tr><th>Reduction</th><th>Rate</th><th>Reduction</th><th>Rate</th></tr>
<tr><td>2027</td><td>4.70%</td><td>---</td><td>4.70%</td><td>---</td><td>4.70%</td></tr>
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20x12		0.01%	4.07%	---	---
20x13		0.01%	4.06%	---	---
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FY29 / TY30 - min reduction of 0.11% assumes SB 3 triggered
TY 2030 - fast growth, tax rate 1.21% which is below the 1.4% cutoff before the rate applied is 0%.

Tax year Impact.

Est. Individual Income Tax Impact by Tax Year

Tax Year	Slow Growth	High Growth
TY 2027	$0	$0
TY 2028	($120,650,996)	($120,650,996)
TY 2029	($256,020,718)	($2,377,824,404)
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TY 20x14	($581,928,194)	($8,510,330,087)
TY 20x15	($592,305,110)	($8,510,330,087)
TY 20x16	($602,533,942)	($8,510,330,087)
TY 20x17	($612,599,660)	($8,510,330,087)
TY 20x18	($622,525,617)	($8,510,330,087)
TY 20x19	($632,283,027)	($8,510,330,087)
Full impact.	($8,510,330,087)	($8,510,330,087)

DOR uses a 41% in the first fiscal year and 59% in the second fiscal year when converting from tax year to fiscal year, based on historical records of collection.

Fiscal Year Impact.

Est. Individual Income Tax Impact by Fiscal Year

Tax Year	Slow Growth	High Growth
FY 2027	$0	$0
FY 2028	($49,466,908)	($49,466,908)
FY 2029	($176,152,582)	($1,046,092,093)
FY 2030	($319,185,379)	($4,892,151,734)
FY 20xx	($415,129,026)	($8,510,330,087)
FY 20x1	($427,394,738)	($8,510,330,087)
FY 20x2	($434,591,714)	($8,510,330,087)
FY 20x3	($444,453,640)	($8,510,330,087)
FY 20x4	($463,503,592)	($8,510,330,087)
FY 20x5	($475,307,755)	($8,510,330,087)
FY 20x6	($486,993,342)	($8,510,330,087)
FY 20x7	($498,548,643)	($8,510,330,087)
FY 20x8	($509,973,772)	($8,510,330,087)
FY 20x9	($521,274,565)	($8,510,330,087)
FY 20x10	($532,449,888)	($8,510,330,087)
FY 20x11	($543,484,663)	($8,510,330,087)
FY 20x12	($554,372,819)	($8,510,330,087)
FY 20x13	($565,114,736)	($8,510,330,087)
FY 20x14	($575,716,260)	($8,510,330,087)
FY 20x15	($586,182,730)	($8,510,330,087)
FY 20x16	($596,498,931)	($8,510,330,087)
FY 20x17	($606,660,886)	($8,510,330,087)
FY 20x18	($616,669,302)	($8,510,330,087)

FY 20x19	($626,526,155)	($8,510,330,087)
Full Impact.	($8,510,330,087)	($8,510,330,087)

DOR will be required to update the department's forms, instructions, website and computer programming each year for these changes. DOR assumes this would be done as part of DOR's normal year end changes. Those changes are estimated at $10,000 annually.

DOR notes that elimination of the individual income tax rate would not in itself eliminate any tax credit. Current tax credits are redeemed against multiple tax types. Specifically, any taxpayer who receives a refundable tax credit would still be able to claim their tax credit. DOR currently pays the refundable tax credits from income tax received. The potential elimination of income tax could result in DOR needing an appropriation to cover the refundable credits. The current refundable credits and their caps/redemption are listed.

MO Works	$126 million
Enterprise Zone	$500,000
BUILD	$16.5 million
Sporting Event	$6 million
Peace Officer Surviving Spouse	$85,000
Senior Property Tax Credit	<u>$65 million</u>
Total Appropriation Needed	$214,085,000

Article X Section 26
Section 26.1 currently prohibits the General Assembly from expanding sales tax to any service or transaction that was not subject to sales tax as of January 1, 2015.

Section 26.2
This amendment adds a Section 26.2 that allows the General Assembly to pass legislation authorizing the expansion of any transaction-based tax (sales & use tax) to goods and services, for the purpose of helping with the elimination of the state individual income tax. This expansion is not required by this proposal as it just grants permission to the General Assembly to create enabling language if they wish.

Section 26.3
This proposal adds a Section 26.3 which would require local political subdivisions to adjust any existing tax rates they have to offset the increased amount of revenue they would receive if an expansion of the sales tax is allowed per Section 26.2. The purpose of this language is to limit the local political subdivisions, so they only receive the same total amount of tax revenue they do under current law.

However, Section 26.3 does not require the local political subdivisions to adjust the additional revenue that schools will receive under this expansion of the sales tax. Therefore, if a school district receives additional revenue from the sales tax, they would be allowed to retain it.

Section 26.4
This proposal adds a Section 26.4 that says starting January 1, 2028, the Constitutionally created sales taxes (Conservation Commission and Park, Soil & Water) would need to be adjusted in order to produce the same amount of revenue as the amount of the three previous fiscal years and adjusted for inflation should an expansion of the sales tax occur. It appears the legislation's intent is to hold steady their revenue as opposed to allowing it to be impacted by the expansion of the sales tax.

DOR notes that expansion of the sales tax would require enabling legislation however, this language says this provision would go into effect January 1, 2028, regardless of such enabling language. This amendment requires the State Auditor to calculate the rate that would go into effect on January 1, 2028, and for it to become effective January 1, 2028. DOR assume no adjustment would be needed if the sales tax was not expanded.

Section 26.5
This proposal adds a Section 26.5 which says that if the sales tax expansion legislation is adopted within three years of the passage of this constitutional amendment then the expanded sales tax revenue would not be subject to the Article X, Section 18 and 18(e) (the Hancock Amendment) nor would the revenue be subject to the motor fuel sales tax distribution rules established in Article IV, Sections 30(a), 30 (b), 30(c) and 30(d). This would allow the increased motor vehicle sales tax to be deposited into general revenue.

SUMMARY
This proposal would implement required reductions in the individual income tax rate. This would allow the General Assembly to expand the sales and use tax, in the future if they so choose.

Officials from the **Department of Social Services** defer to the Office of Administration - Budget and Planning for the potential fiscal impact of this proposal.

Officials from the **Joint Committee on Public Employee Retirement (**JCPER)'s review of HCS HJR 173 indicates that its provisions may constitute a "substantial proposed change" in future plan benefits as defined in section 105.660(10). It is impossible to accurately determine the fiscal impact of this legislation without an actuarial cost statement prepared in accordance with section 105.665. Pursuant to section 105.670, an actuarial cost statement must be filed with the Chief Clerk of the House of Representatives, the Secretary of the Senate, and the Joint Committee on Public Employee Retirement as public information for at least five legislative days prior to final passage.

Officials from the **County Employees Retirement Fund (CERF)** assume Section 26.2 and Section 26.3 would have a negative fiscal impact to the County Employees' Retirement Fund. CERF assumes that the General Assembly would enact legislation to expand the sales and use tax base. Section 26.3 requires any political subdivision that imposes a sales and use tax to annually adjust the rate of such sales or use tax, the levy of personal property tax, the levy for residential real property tax, or the rate of any earnings tax.

In the absence of any existing enabling legislation to expand such sales and use tax base pursuant to this HJR, there is insufficient data to quantify the precise impact to CERF. However, CERF assumes a negative impact and reduction in revenues if a political subdivision chooses to reduce a property tax levy. A certain portion of the moneys that are used to fund the County Employees' Retirement Fund are tied to the collection of property taxes. CERF notes that the amount of these revenues fluctuates from year to year. CERF estimates that this provision could result in revenue losses of approximately $25 million annually. Such losses would be expected to increase annually in addition to expected investment return on such revenues that would not be earned.

Sections 26.2 and 26.3 present serious implications for CERF's funding because a significant portion of the current contribution stream could ultimately be materially reduced or lost entirely. Unless the revenues are replaced with other sources of revenue, there would be severe implications for CERF's sustainability including a deterioration of CERF's funding over time and the possibility that the plan assets might be depleted, which would impair the ability of the plan to pay benefits when due to retirees and beneficiaries.

Officials from the **Wellington-Napoleon R-Ix School District** assume HJR173 would be extremely harmful without guaranteed replacement revenue from sales tax. As currently written, there is a hypothetical replacement of lost revenue. Income tax in Missouri has historically generated approximately 65% of the state's annual general revenue. A cut of this magnitude would have catastrophic effects on public education, particularly districts that rely on state funding formula contributions. Without guaranteed replacement funding Wellington-Napoleon R-IX would be looking at an annual cut to revenue of $638,000. That would equate to over a 9% revenue cut to the district and approximately 12 district teachers.

Officials from the **City of Kansas City** assume the proposed legislation has a negative fiscal impact of an indeterminate amount.

Officials from the **St Louis Budget Division** assume a fiscal impact but did not provide any additional information.

Officials from the **St Louis City Assessor** assume if districts reduce their property tax collections due to increases in their sales and use taxes, the result will be a reduction in the Collector of Revenue Fund and the Assessment Fund used for the administration of the property tax system.

Currently, the Collector of Revenue receives 1.5% of property taxes collected. The Assessor receives 5/8 of 1% of property taxes collected.

In 2024, the amount of property taxes to the Collector and Assessor were as follows:

Collector = $7.75 Million
Assessor = $3.1 Million

While the fiscal impact from the legislation is unknown, if there is any significant or substantial loss to the Collector of Revenue and Assessor funds then it will impact the ability of the Collector and Assessor to continue to operate when those funds are reduced. There is no mechanism in the legislation to replace lost funds for these purposes.

Officials from the **Eastern Clay Ambulance District** assume a fiscal impact but did not provide any additional information.

Officials from the **Adair County SB 40 Board** assume a reduction in funding from personal and/or real property taxes would have a direct and significant impact on the essential supports provided by the Adair County SB40 Developmental Disability Board. SB40 funding enables the local system to assess community needs and sustain a coordinated network of services that currently support approximately 465 individuals with intellectual and developmental disabilities and their families across Adair County.

These locally funded services include access to employment supports, service coordination, inclusive community opportunities, and critical resources that promote independence, stability, and quality of life. Property-tax revenue is a foundational component of this system, allowing Adair County SB40 to respond to individual needs while ensuring services remain accessible and community-based. Beyond the individuals served, these supports strengthen families, reduce reliance on more costly crisis services, and contribute to a more inclusive and resilient community overall.

Any changes to property-tax funding must be carefully evaluated in light of these impacts. If reductions to personal and/or real property taxes are pursued, it is essential that a sustainable and equitable replacement funding mechanism be established. Without such a replacement, the ability of Adair County SB40 to meet its statutory mission and continue providing vital supports to individuals with disabilities and their families would be significantly compromised, with broader consequences for the community as a whole.

Officials from the **Callaway County SB 40 Board** assume HCS HJR 173 proposes a constitutional amendment to phase out Missouri's individual income tax while allowing expansion of sales and use taxes and requiring political subdivisions to reduce certain local tax revenues, including property tax levies, to offset increased sales tax collections.
Callaway County Special Services (CCSS), a Senate Bill 40 board funded through a voter-approved property tax levy approved by Callaway County voters in 1988, relies on local property tax revenue to fund services for individuals with intellectual and developmental disabilities. CCSS currently supports more than 230 individuals and their families through employment supports, inclusive community programs, and essential family resources.

While HCS HJR 173 does not directly eliminate this revenue source, the amendment authorizes political subdivisions beginning in 2029 to reduce local property tax levies to offset additional revenue generated by expanded sales and use taxes.
Because SB40 boards rely on property tax revenue, required reductions to local property tax levies could indirectly constrain or reduce future funding available for disability services. The fiscal impact to CCSS is therefore unknown but potentially significant, depending on how local tax adjustments are implemented.

Because Senate Bill 40 boards provide essential services to individuals with intellectual and developmental disabilities—many of the state's most vulnerable citizens—consideration should be given to exempting SB40 levies from any required reductions under this proposal, similar to the protections provided for public school funding, to ensure continuity of critical community-based supports.

Officials from the **State Tax Commission**, **Platte County Board of Elections**, **St. Louis City Board of Elections**, **St. Louis County Board of Elections**, **Newton County Health Department**, **St. Louis County Police Dept**, **Kansas City Police Dept.**, **Branson Police Dept**, **Office of the State Auditor**, and the **Joint Committee on Administrative Rules** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other local political subdivisions were requested to respond to this proposed legislation but did not. Upon the receipt of additional responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note. A general listing of political subdivisions included in our database is available upon request.

In response to a previous version, officials from the **Office of the Secretary of the State (SOS)** assumed, each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment and bills that would refer to a vote of the people the statutory issue in the legislation may be considered by the General Assembly.

Unless a special election is called for the purpose, joint resolutions proposing a constitutional amendment are submitted to a vote of the people at the next general election. Article XII section 2(b) of the Missouri Constitution authorizes the governor to order a special election for constitutional amendments referred to the people. If a special election is called to submit a joint resolution to a vote of the people, Section 115.063.2, RSMo., requires the state to pay the costs. The cost of a special election has been estimated to be $9 million based on the cost of past primary and general election reimbursements.

The Secretary of State's office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri

Constitution and Section 116.230-116.290, RSMo. Funding for this item is adjusted each year depending upon the election cycle. A new decision item is requested in odd numbered fiscal years and the amount requested is dependent upon the estimated number of ballot measures that will be approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2014, the General Assembly changed the appropriation so that it was no longer an estimated appropriation.

For the FY27 publication cycle, the SOS estimates publication costs at $515,000 per ballot measure. This amount is an average and will be subject to change based on the number of petitions received, length of those petitions, and rates charged by newspaper publishers. In a year where many lengthy measures must be published, the Secretary of State's Office may need to budget up to $10,000,000 to ensure sufficient funding is available to meet its constitutional obligations for the election cycle.

The Secretary of State's office will continue to assume, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. Because these requirements are mandatory, the SOS reserves the right to request funding to meet the cost of their publishing requirements if the Governor and the General Assembly again change the amount or continue to not designate it as an estimated appropriation.

Oversight has reflected, in this fiscal note, the state potentially reimbursing local political subdivisions the cost of having this joint resolution voted on during a special election in fiscal year 2027. This reflects the decision made by the Joint Committee on Legislative Research that the cost of the elections should be shown in the fiscal note. Per the SOS, the cost is estimated at $9 million based on past costs as well as the anticipation of significant increases in future election-related expenses. The next scheduled statewide general election is in November 2026 (FY 2027). It is assumed the subject within this proposal could be on this ballot; however, it could also be on a special election called for by the Governor (a different date). Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2027.

FISCAL IMPACT – State Government	FY 2027 (10 Mo.)	FY 2028	FY 2029	Fully Implemented (FY Unknown)
GENERAL REVENUE				
Transfer Out – SOS Reimbursement of local election authority election costs if a special election is called by the Governor p.11	$0 or (More than $9,000,000)	$0	$0	$0
Revenue Loss – (Section 4(d)) Reduction of individual income tax rate, **if** approved by voters & certain revenue dependent triggers are met p.6	$0	$0 or ($49,466,908)	$0 or ($176,152,582 to $1,046,092,093)	$0 or ($8,510,330,087)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 or (More than $9,000,000)**	**$0 or ($49,466,908)**	**$0 or ($176,152,582 to $1,046,092,093)**	**$0 or ($8,510,330,087)**
CONSERVATION COMMISSION FUND (1609)				
Revenue Loss – (Section 26.4) Reduction of sales tax rate, **if** approved by voters p.9	$0	$0 or (could exceed $9,715,985)	$0 or (could exceed $9,715,985)	$0 or (could exceed $9,715,985)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND (1609)	**$0**	**$0 or (could exceed $9,715,985)**	**$0 or (could exceed $9,715,985)**	**$0 or (could exceed $9,715,985)**

FISCAL IMPACT – State Government	FY 2027 (10 Mo.)	FY 2028	FY 2029	Fully Implemented (FY Unknown)
PARKS AND SOILS STATE SALES TAX FUNDS (1613 & 1614)				
Revenue Loss – (Section 26.4) Reduction of sales tax rate, **if** approved by voters p.9	$0	$0 or (could exceed $44,506,414)	$0 or (could exceed $44,506,414)	$0 or (could exceed $44,506,414)
ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUNDS (1613 & 1614)	**$0**	**$0 or (could exceed $44,506,414)**	**$0 or (could exceed $44,506,414)**	**$0 or (could exceed $44,506,414)**

FISCAL IMPACT – Local Government	FY 2027 (10 Mo.)	FY 2028	FY 2029	Fully Implemented (FY Unknown)
LOCAL POLITICAL SUBDIVISIONS				
Transfer In - Local Election Authorities Reimbursement of election costs by the State for a special election p.11	$0 or More than $9,000,000	$0	$0	$0
Cost - Local Election Authorities - Cost of a special election **if** called for by the Governor p.11	$0 or (More than $9,000,000)	$0	$0	$0
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**$0**	**$0**	**$0**	**$0**

FISCAL IMPACT – Small Business

No direct fiscal impact on small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

The proposed legislation proposes a constitutional amendment relating to taxation.

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 and Planning
Missouri Department of Conservation
Department of Social Services
Joint Committee on Public Employee Retirement
City of Kansas City
Adair County SB 40 Board
Callaway County SB 40 Board
State Tax Commission
Platte County Board of Elections
St. Louis City Board of Elections
St. Louis County Board of Elections
Newton County Health Department
St. Louis County Police Dept
Kansas City Police Dept.
Joint Committee on Administrative Rules
Department of Revenue
Department of Natural Resources
St Louis Budget Division
St Louis City Assessor
Branson Police Dept
Eastern Clay Ambulance District
County Employees' Retirement Fund (CERF)
Wellington-Napoleon R-Ix School District
Office of the State Auditor

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March 11, 2026

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March 11, 2026

KLS:LR:OD