

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6854S.13F
 Bill No.: SS for SCS for HCS for HJR Nos. 173 & 174
 Subject: Constitutional Amendments; Taxation and Revenue - Income; Taxation and Revenue - Sales and Use
 Type: Original
 Date: April 20, 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 |
|--|---------------------------------------|------------|------------|
| General Revenue* | \$0 or (More than \$9,000,000) | \$0 | \$0 |
| Total Estimated Net Effect on General Revenue | \$0 or (More than \$9,000,000) | \$0 | \$0 |

*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.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS

| FUND AFFECTED | FY 2027 | FY 2028 | FY 2029 |
|---|------------|------------|------------|
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 | \$0 | \$0 |

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS

| FUND AFFECTED | FY 2027 | FY 2028 | FY 2029 |
|---|------------|------------|------------|
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)

| FUND AFFECTED | FY 2027 | FY 2028 | FY 2029 |
|--|----------|----------|----------|
| | | | |
| | | | |
| Total Estimated Net Effect on FTE | 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 |
|-------------------------|-------------|------------|------------|
| | | | |
| | | | |
| Local Government | \$0* | \$0 | \$0 |

*Potential costs and state reimbursements net to zero in FY 2027 if a special election is called.

FISCAL ANALYSIS

ASSUMPTION

HJR – Income Tax

Officials from **Department of Revenue** 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 would become effective in December 2026, and it would have the following fiscal impact.

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 states that the General Assembly shall enact legislation to reduce and eliminate the state individual income tax. Upon elimination of the tax, it would be prohibited from being reinstated.

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 proposal adds 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 proposal says the sale and use tax expansion must be included in the same bill that eliminates the income tax and the total amount of revenue from the reduction or the income tax and the increase in sales tax must be equal.

This proposal adds in Section 26.2 that if the sales tax expansion legislation is adopted within five years of the passage of this constitutional amendment then the expanded sales tax revenue would not be subject to the Article X, Section 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 (b), 30(c) and 30(d).

Section 26.3

This proposal adds Section 26.3 which wants 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. This adjustment would begin 12 months after the increase in the sales tax rate is implemented in Section 26.2.

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 Section 26.4, that says that starting 12 months upon elimination of Section 26.2, 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 they currently receive. 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.

SUMMARY

Taking this HJR to the citizens will not have a direct impact on state or local tax revenue. DOR notes that reduction of the income tax and the expansion of the sales tax proposed in this amendment would require enabling legislation. Any fiscal impact from the change in tax revenue would be reported in that enabling language's fiscal note.

Officials from **Office of Administration - Budget and Planning** state, as this is enabling language only, any potential fiscal impact will be assigned to the follow-up legislation.

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 **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.

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.

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

Officials from the **Joint Committee on Public Employee Retirement (JCPER)** state their review of this proposal 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)** have reviewed this proposal. 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 under section 26.2. Section 26.3 requires any political subdivision that imposes a sales or use tax to make a one-time adjustment to the rate of such sales or use tax, the levy imposed on personal property, the levy imposed on residential real property, the levy imposed on all real property if the political subdivision imposes the same rate of levy on all such property, or the rate of any tax imposed on earnings in an amount that is substantially equal to 97% of the additional revenue produced by any expansion of the sales and use tax base.

In the absence of any enabling legislation to expand such sales and use tax base pursuant to the Senate Substitute 13F, there is insufficient data to quantify the precise impact to CERF. However, CERF assumes a negative impact and a 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 up to approximately \$25 million annually. Such losses would be expected to increase annually in addition to not earning expected investment return on such revenues.

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. It would increase the likelihood in the future that the plan does not receive sufficient funding to pay benefits that are earned and expected by members. The plan could fall short of funds and be forced to reduce benefit payments to members and surviving beneficiaries.

Officials from the **Metro St. Louis Sewer District Employees Pension Plan** state to the extent that the reduction in state income tax and an increase in sales taxes for ratepayers increases the overall burden on our ratepayers that pay little income tax, they will expect an increase in delinquent accounts and collection costs.

Officials from the **State Tax Commission, Joint Committee on Administrative Rules, Public Schools and Education Employee Retirement Systems, Sheriffs' Retirement Plan, Platte County Board of Elections**, and the **Newton County Health Department** each assume the proposal will have no fiscal impact on their respective organizations.

Oversight assumes this joint resolution states the general assembly shall enact legislation to reduce and eliminate the state individual income tax. Upon the elimination of the individual income tax, the general assembly shall be prohibited from enacting or imposing any state individual income tax.

Oversight notes upon the elimination and subsequent prohibition of the individual income tax, the revenue loss is estimated at \$8,510,330,087. However, Oversight assumes the reduction and elimination of the state income tax would require further legislative action by the general assembly. The fiscal impact of those reductions will be addressed in the fiscal notes for the corresponding legislation.

Additionally, Oversight assumes expanding the sales tax base would require further legislative action by the general assembly. The fiscal impact of expanding the sales tax base will be addressed in the fiscal notes for the corresponding legislation.

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.

| <u>FISCAL IMPACT – State Government</u> | FY 2027 (10 Mo.) | FY 2028 | FY 2029 |
|---|--|-------------------|-------------------|
| GENERAL REVENUE | | | |
| <u>Transfer Out – SOS</u> Reimbursement of local election authority election costs if a special election is called by the Governor p.4-5 | \$0 or (More than <u>\$9,000,000</u>) | <u>\$0</u> | <u>\$0</u> |
| ESTIMATED NET EFFECT ON GENERAL REVENUE | \$0 or (More than <u>\$9,000,000</u>) | <u>\$0</u> | <u>\$0</u> |

| <u>FISCAL IMPACT – Local Government</u> | FY 2027 (10 Mo.) | FY 2028 | FY 2029 |
|---|--------------------------------|-------------------|-------------------|
| LOCAL POLITICAL SUBDIVISIONS | | | |
| <u>Transfer In</u> - Local Election Authorities Reimbursement of election costs by the State for a special election p.4-5 | \$0 or More than \$9,000,000 | \$0 | \$0 |
| <u>Cost</u> - Local Election Authorities Cost of a special election if called for by the Governor p.4-5 | \$0 or (More than \$9,000,000) | <u>\$0</u> | <u>\$0</u> |
| ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

FISCAL IMPACT – Small Business

Elimination of the income tax would positively impact pass-through businesses (pending voter approval).

FISCAL DESCRIPTION

INCOME TAX

Current law imposes a graduated income tax rate and authorizes reductions in the top rate of income tax contingent on certain state revenue collections, with an eventual top rate of 4.5%. This amendment provides that the General Assembly shall enact legislation to reduce and eliminate the individual income tax based on revenue growth. Upon the elimination of the income tax, the General Assembly shall be prohibited from enacting such tax.

SALES AND USE TAX

This amendment authorizes the General Assembly to expand the sales and use tax base to include the ability to tax any goods and services. Beginning twelve months from the effective date of any such legislation, any political subdivision imposing a sales or use tax shall adjust one or more of several tax levies imposed by such political subdivision for the purpose of offsetting ninety-seven percent of any additional revenue received from the expansion of the sales and use tax base. The levies that shall be adjusted are the sales and use tax rate, personal property tax levy, residential real property tax levy, the property tax operating levy, or earnings tax rate. Notwithstanding such provision, no adjustment made pursuant to this provision shall result in a reduction in funding to the public schools within or serving such political subdivision.

Beginning twelve months from the effective date of any legislation expanding the sales tax base or increasing the sales tax rate, each constitutionally-imposed sales and use tax rate shall be adjusted in a manner provided by law in order to produce substantially the same amount of tax produced by any sales and use tax base expansion. The State Auditor shall determine any such adjustments. (Section 26)

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
Department of Social Services
Missouri Department of Conservation
Department of Natural Resources
State Tax Commission
Joint Committee on Administrative Rules
Joint Committee on Public Employee Retirement
County Employees' Retirement System
Public Schools and Education Employee Retirement Systems
Sheriffs' Retirement System
City of Kansas City
Platte County Board of Elections
Newton County Health Department



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April 20, 2026



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April 20, 2026