

HCS HJR 173 & 174 -- TAXATION (Davidson)

COMMITTEE OF ORIGIN: Standing Committee on Commerce

Upon voter approval, this constitutional amendment repeals Sections 4(d) and 26 of Article X of the Missouri Constitution and adopts two new sections in their place relating to taxation.

The amendment authorizes the General Assembly, when enacting any law imposing a tax measured by income, to define income by reference to provisions of federal law as those provisions may become effective from time to time, whether retrospective or prospective. The General Assembly must set the rate or rates of any such tax and may make exceptions, additions, or modifications to any federal provisions referenced in defining income.

The amendment establishes a mechanism to reduce and eliminate the state individual income tax based on increases in net general revenue collections. For a calendar year, the rate of the individual income tax must be reduced by one-hundredth of one percent if net general revenue collections in the previous fiscal year exceed by at least \$20 million the amount of net general revenue collections for the fiscal year ending June 30, 2025. The amount of net general revenue collections for the fiscal year ending June 30, 2025, must be adjusted annually by the rate of inflation. If the minimum amount of net general revenue collections required to trigger a reduction is met, each additional increase in net general revenue collections in the previous fiscal year by \$20 million beyond that minimum must result in an additional reduction of one-hundredth of one percent, up to a maximum reduction of one and six-tenths percent in a calendar year.

If the rate reductions required under the amendment would cause the individual income tax rate to fall below one and four-tenths percent for any tax year, the rate imposed must instead be 0%. If the reductions do not eliminate the individual income tax by January 1, 2032, the tax may continue until it is eliminated according to the revenue triggers and rate reductions established in the amendment. For any tax year beginning on or after the date the individual income tax rate has been reduced to 0%, no individual income tax may be enacted or imposed by the state. The amendment specifies that elimination of the tax does not affect the collectability of liabilities or debts for tax years beginning before the date of elimination and does not apply to an earnings tax or similar tax imposed by a political subdivision. For purposes of this provision, "individual income tax" is

defined as the tax imposed on the income of natural persons under Sections 143.011 and 143.041, RSMo.

The amendment defines certain terms used in the tax reduction provisions. "CPI" is defined as the Consumer Price Index for All Urban Consumers for the United States as reported by the Bureau of Labor Statistics or a successor index. "Net general revenue collections" is defined as the total general revenue collections net of refunds for a fiscal year as officially reported to the public by a government body specified by law. "Rate of inflation" is defined as the percentage, if any, by which the CPI for the preceding 12-month period beginning September first and ending August 31st exceeds the CPI for the 12-month period beginning September 1, 2025, and ending August 31, 2026. "Twenty million dollars" is defined as the \$20 million adjusted annually by the rate of inflation.

The amendment provides that state and local sales and use taxes, or similar transaction-based taxes, may not be expanded to impose taxes on any service or transaction that was not subject to sales, use, or similar transaction-based tax on January 1, 2015. Notwithstanding that limitation, the General Assembly may authorize the expansion of sales and use taxes to transactions involving goods and services if legislation expressly states that the expansion is enacted for the purpose of reducing and eliminating the State individual income tax and reducing local tax rates, and the legislation includes a finding by the General Assembly that the expansion is anticipated, directly or indirectly, to lead to the reduction and elimination of the State individual income tax and the reduction of local tax rates.

Beginning January 1, 2029, any political subdivision that imposes a sales and use tax must, in the manner and frequency provided by law enacted by the General Assembly, annually adjust one or more specified tax rates or levies in order to reduce revenue generated in an amount substantially equal to the additional revenue produced by any sales and use tax base expansion authorized under the amendment. These adjustments may include changes to the rate of the sales or use tax, the operating levy for personal property taxes, the operating levy for residential real property taxes, the operating levy for all property taxes levied by a political subdivision that imposes the same rate of levy upon all taxable property, or the rate of any tax imposed on earnings. The amendment specifies that under no circumstances may a county or other political subdivision make an adjustment that results in a reduction in funding to public schools within or serving the jurisdiction.

Beginning January 1, 2028, each sales and use tax rate imposed directly by the Missouri Constitution, except the rate imposed under Article XIV of the Missouri Constitution, must be adjusted in the manner provided by law to produce substantially the same amount of tax revenue as the median annual amount of tax revenue produced during the three state fiscal years ending in 2024, 2025, and 2026, after the revenue for each fiscal year is adjusted for inflation. The State Auditor must determine the reasonable estimate of the median annual revenue amount and calculate the reduced rates necessary to produce that amount.

The amendment also provides that any tax or revenue increase resulting from legislation enacted for the purpose of reducing and eliminating the state individual income tax and reducing local tax rates, if enacted within three years of the effective date of the amendment, will not be considered new annual revenue for purposes of Section 18(e) of Article X of the Missouri Constitution and will be exempt from the requirements of Article IV, Sections 30(b), 30(c), and 30(d) of the Missouri Constitution.

The amendment includes ballot language for this proposed constitutional amendment.