

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5293-01  
Bill No.: SJR 31  
Subject: Taxation and Revenue - Income, Taxation and Revenue - General, Constitutional Amendments  
Type: Original  
Date: February 19, 2018

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Bill Summary: This proposal places a cap on annual appropriations and reduces income tax rates based on revenue growth.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>				
<b>FUND AFFECTED</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>Fully Implemented</b>
General Revenue*	\$0 or (\$7,800,000)	\$0 or (\$19,541,113)	\$0 or (\$72,366,059)	\$0 or (\$5,088,520,228)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0 or (\$7,800,000)</b>	<b>\$0 or (\$19,541,113)</b>	<b>\$0 or (\$72,366,059)</b>	<b>\$0 or (\$5,088,520,228)</b>

\* Impact in Fiscal Years 2020 and beyond are dependent upon net general revenue collections and state general revenue appropriations triggers being met. Oversight will range the impact from \$0 (triggers not met or SJR 31 not approved by voters) to amounts estimated by the Department of Revenue as if the triggers had been met

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>				
<b>FUND AFFECTED</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>Fully Implemented</b>
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented
<b>Local Government*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

\* Potential election expenses and reimbursements net to zero.

## **FISCAL ANALYSIS**

### **ASSUMPTION**

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal would limit annual appropriations growth to the sum of the annual inflation rate and the annual percentage change in the population of Missouri above the prior fiscal year's appropriated amount.

This proposal would also limit annual net General Revenue collections. In fiscal years where net General Revenue collections exceed state General Revenue appropriations by more than 1%, the lowest state income tax rate will be eliminated. This will occur until there is a single income tax rate. In addition, once there is a single income tax rate that rate is to be reduced by 0.25% each fiscal year where net General Revenues collected are 2.5% or more than the actual total state General Revenue appropriation. This rate reduction will occur until there is no longer a state income tax.

For the purposes of this fiscal note, B&P assumes that the elimination of the tax rate will occur for the tax year immediately following the end of each fiscal year where this trigger has been met. For the purposes of this fiscal note, B&P also assumes that SB 509 (2014) is triggered each year from tax year 2018 through tax year 2022. However, B&P notes that this proposal will likely delay the income tax rate reduction and business exemption provisions of SB 509.

B&P estimates that this proposal could begin as early as tax year 2020 and, if triggered each subsequent year, would fully phase-out the state income tax by tax year 2049. B&P estimates, based on tax year 2015 data, that this proposal would reduce General and Total State Revenues in the following amounts by tax year.

ASSUMPTION (continued)

Figures in Millions			
Tax Year 1	\$46.8	Tax Year 16	\$2,503.8
Tax Year 2	\$108.7	Tax Year 17	\$2,703.2
Tax Year 3	\$187.5	Tax Year 18	\$2,901.7
Tax Year 4	\$279.4	Tax Year 19	\$3,104.6
Tax Year 5	\$387.9	Tax Year 20	\$3,301.0
Tax Year 6	\$509.5	Tax Year 21	\$3,497.6
Tax Year 7	\$641.3	Tax Year 22	\$3,687.0
Tax Year 8	\$791.5	Tax Year 23	\$3,874.1
Tax Year 9	\$1,013.7	Tax Year 24	\$4,059.5
Tax Year 10	\$1,233.4	Tax Year 25	\$4,241.8
Tax Year 11	\$1,452.7	Tax Year 26	\$4,422.2
Tax Year 12	\$1,666.7	Tax Year 27	\$4,606.2
Tax Year 13	\$1,875.2	Tax Year 28	\$4,775.5
Tax Year 14	\$2,089.1	Tax Year 29	\$4,945.1
Tax Year 15	\$2,292.6	Tax Year 30	\$5,114.8

If the first tax rate elimination were to occur in tax year 2020, taxpayers would adjust withholdings and declarations beginning in January 2020. This proposal could reduce General and Total State Revenues in FY 2020 by an estimated \$16.8 million. When fully phased-in (FY 2050), the proposal will reduce General and Total State Revenues by an estimated \$5,114.8 million.

ASSUMPTION (continued)

Fiscal Year	Loss to GR	Fiscal Year	Loss to GR
FY 20	\$16.8	FY 36	\$2,575.5
FY 21	\$69.0	FY 37	\$2,774.6
FY 22	\$137.1	FY 38	\$2,974.8
FY 23	\$220.6	FY 39	\$3,175.2
FY 24	\$318.4	FY 40	\$3,371.7
FY 25	\$431.7	FY 41	\$3,565.8
FY 26	\$557.0	FY 42	\$3,754.4
FY 27	\$695.3	FY 43	\$3,940.8
FY 28	\$871.5	FY 44	\$4,125.2
FY 29	\$1,092.8	FY 45	\$4,306.8
FY 30	\$1,312.4	FY 46	\$4,488.4
FY 31	\$1,529.7	FY 47	\$4,667.2
FY 32	\$1,741.8	FY 48	\$4,836.5
FY 33	\$1,952.3	FY 49	\$5,006.2
FY 34	\$2,162.3	FY 50	\$5,114.8
FY 35	\$2,368.7		

B&P notes that this proposal would be effective January 1, 2019, but tax year 2015 data is the most recent available for analysis. The actual revenue impacts may be substantially different due to the five-year difference.

ASSUMPTION (continued)

Officials at the **Department of Revenue (DOR)** assume this proposed constitutional amendment prohibits the total state general revenue appropriations for any fiscal year from exceeding the level from the previous fiscal year, allowing for growth in an amount equal to the annual rate of inflation plus the annual percentage change in state population. Total state general revenue appropriations may exceed the previous fiscal year's amount only under certain conditions. This proposal may decrease state revenues by an estimated \$5.1 billion, once fully implemented; which could occur as early as FY 2050.

<b>Tax Year</b>	<b>Impact per Tax Year</b>	<b>Fiscal Year</b>	<b>Impact per Fiscal Year</b>
TY 2020	(\$46,526,459)	FY 2020	(\$19,541,113)
TY 2021	(\$108,049,316)	FY 2021	(\$72,366,059)
TY 2022	(\$186,278,977)	FY 2022	(\$140,905,774)
TY 2023	(\$277,523,003)	FY 2023	(\$224,601,468)
TY 2024	(\$385,300,231)	FY 2024	(\$322,789,439)
TY 2025	(\$505,998,017)	FY 2025	(\$435,993,301)
TY 2026	(\$636,923,057)	FY 2026	(\$548,248,073)
TY 2027	(\$786,211,810)	FY 2027	(\$699,624,333)
TY 2028	(\$1,007,024,911)	FY 2028	(\$878,953,312)
TY 2029	(\$1,225,474,822)	FY 2029	(\$1,098,773,874)
TY 2030	(\$1,443,417,576)	FY 2030	(\$1,317,010,779)
TY 2031	(\$1,656,080,702)	FY 2031	(\$1,532,736,089)
TY 2032	(\$1,863,423,953)	FY 2032	(\$1,743,164,867)
TY 2033	(\$2,075,935,851)	FY 2033	(\$1,952,678,950)
TY 2034	(\$2,277,181,082)	FY 2034	(\$2,160,458,848)
TY 2035	(\$2,488,253,982)	FY 2035	(\$2,365,831,700)
TY 2036	(\$2,686,439,855)	FY 2036	(\$2,571,492,049)

<b>Tax Year</b>	<b>Impact per Tax Year</b>	<b>Fiscal Year</b>	<b>Impact per Fiscal Year</b>
TY 2037	(\$2,883,765,312)	FY 2037	(\$2,769,316,547)
TY 2038	(\$3,085,454,009)	FY 2038	(\$2,968,474,565)
TY 2039	(\$3,280,649,821)	FY 2039	(\$3,167,436,250)
TY 2040	(\$3,476,128,634)	FY 2040	(\$3,362,750,922)
TY 2041	(\$3,664,362,608)	FY 2041	(\$3,555,186,903)
TY 2042	(\$3,850,419,770)	FY 2042	(\$3,742,506,616)
TY 2043	(\$4,034,772,961)	FY 2043	(\$3,927,848,110)
TY 2044	(\$4,215,977,442)	FY 2044	(\$4,110,878,843)
TY 2045	(\$4,395,264,674)	FY 2045	(\$4,291,278,079)
TY 2046	(\$4,578,295,503)	FY 2046	(\$4,472,137,622)
TY 2047	(\$4,746,504,620)	FY 2047	(\$4,648,943,332)
TY 2048	(\$4,915,226,972)	FY 2048	(\$4,817,368,008)
TY 2049	(\$5,088,520,228)	FY 2049	(\$5,088,520,228)

For any fiscal year in which net general revenue collections exceed total state general revenue appropriations by more than one percent of total state general revenue appropriations, the lowest state income tax rate, in effect, shall be permanently eliminated. Such elimination shall not occur if there is a single income tax rate in effect.

When the amount recorded exceeds total state general revenue appropriations by two and one-half percent, the top state income tax rate shall be reduced by one-quarter of one percent.

The Department requires form changes and programming support to implement the provisions of this legislation.

**Oversight** assumes DOR is provided with core funding to handle a certain amount of form changes and computer programming activity each year. Oversight assumes DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

ASSUMPTION (continued)

Officials at the **Office of the Secretary of State (SOS)** assume 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 the special election has been estimated to be \$7.8 million based on the cost of the 2016 Presidential Preference Primary.

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. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.3 million historically appropriated in odd numbered fiscal years and \$100,000 appropriated in even numbered fiscal years to meet these requirements. Through FY 2013, the appropriation had historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2015, the General Assembly changed the appropriation so that it was no longer an estimated appropriation. In FY 2017 the Secretary of State's Office was appropriated \$2.6 million to publish the full text of the measures. In FY 2017, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$2.4 million to publish (an average of \$400,000 per issue). 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, we reserve the right to request funding to meet the cost of our 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 2018. 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. The next scheduled statewide primary election is in August 2018 and the next scheduled general election is in November 2018



ASSUMPTION (continued)

(both in FY 2019). It is assumed the subject within this proposal could be on one of these ballots; however, it could also be on a special election called for by the Governor. Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2018.

Since this proposal requires a vote of the people, **Oversight** will show the impact as \$0 (the amendment is not adopted) or the impact estimated.

**Oversight** will use the estimate provided by DOR. While this proposal may impact multiple state funds, for the simplicity of the fiscal note, Oversight will show the full state impact to General Revenue.

**Oversight** notes that B&P and DOR calculated the fiscal impact based on the tax year (which is a calendar year). They then used a 42%/58% split for converting the tax year decrease to a fiscal year decrease. This split is based on historical data from FY 2000 to FY 2017.

<u>FISCAL IMPACT -</u>				Fully
<u>State Government</u>	FY 2019	FY 2020	FY 2021	Implemented

**GENERAL  
REVENUE FUND**

<u>Revenue Reduction -</u>				
phase out of the				
individual income		\$0 or	\$0 or	\$0 or
tax*	\$0	(\$19,541,113)	(\$72,366,059)	(\$5,088,520,228)

<u>Transfer Out- to</u>				
Local Election				
Authorities the cost				
of a special election	\$0 or			
if called	<u>(\$7,800,000)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<b>ESTIMATED NET</b>				
<b>EFFECT ON THE</b>				
<b>GENERAL</b>	\$0 or	\$0 or	\$0 or	\$0 or
<b>REVENUE FUND</b>	<u>(\$7,800,000)</u>	<u>(\$19,541,113)</u>	<u>(\$72,366,059)</u>	<u>(\$5,088,520,228)</u>

\* Dependant upon certain triggers being met.

<u>FISCAL IMPACT -</u> <u>Local Government</u>	FY 2019	FY 2020	FY 2021	Fully Implemented
<b>LOCAL ELECTION AUTHORITIES</b>				
<u>Transfer In - to</u> Local Election Authorities the cost of a special election	\$0 or \$7,800,000	\$0	\$0	\$0
<u>Cost - Local Election</u> Authorities the cost of the special election if called for by the Governor	\$0 or <u>(\$7,800,000)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>ESTIMATED NET EFFECT ON LOCAL ELECTION AUTHORITIES</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This constitutional amendment, if approved by the voters, prohibits the total state general revenue appropriations for any fiscal year, as defined in the amendment, from exceeding the level from the previous fiscal year, allowing for growth in an amount equal to the annual rate of inflation plus the annual percentage change in state population. Total state general revenue appropriations may exceed the previous fiscal year's amount only under certain conditions, as described in the amendment.

FISCAL DESCRIPTION (continued)

For any fiscal year in which net general revenue collections exceed total state general revenue appropriations by more than one percent of total state general revenue appropriations, the lowest state income tax rate in effect shall be permanently eliminated. Such elimination shall not occur if there is a single income tax rate in effect.

For each fiscal year after the fiscal year in which the final rate elimination has occurred, the Commissioner of Administration shall record the amount by which net general revenue collections exceed total state general revenue appropriations. When the amount recorded exceeds total state general revenue appropriations by two and one-half percent, the top state income tax rate shall be reduced by one-quarter of one percent. The Commissioner of Administration shall perform this calculation and rate reduction beginning in each fiscal year following a fiscal year in which a rate reduction occurs until the top state income tax rate is eliminated.

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  
Division of Budget and Planning  
Office of the Secretary of State

Ross Strobe



Acting Director  
February 19, 2018