

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0111S.01I  
 Bill No.: SB 226  
 Subject: Taxation and Revenue - Income  
 Type: Original  
 Date: January 15, 2025

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

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY Unknown)
General Revenue	\$0	\$0	\$0	\$0 or could exceed (\$8,515,185,571)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0 or could exceed (\$8,515,185,571)</b>

\***Oversight** notes, currently, the state individual income tax rate (4.70% in TY 2025) is to be reduced annually in 0.1% increments (if certain triggers are met) until it reaches 4.5%. This proposal allows the current rate reductions to continue until the individual income tax rate is zero subject to the adoption of a constitutional amendment. Oversight is unable to determine when/if future rate reductions will occur. Oversight notes the fully implemented impact of this proposal is based upon 2022 data provided by DOR and is not adjusted for inflation or future revenue growth.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY Unknown)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY Unknown)
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY Unknown)
<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 \$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.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY Unknown)
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### **Section 143.011 Individual Income Tax Rate**

Officials from the **Department of Revenue (DOR)** note currently the individual income tax rate is set in Section 143.011 based on language in SB 3 adopted in 2022. SB 3 set the top individual income tax rate at 4.95% and set up four additional future reductions until it reached 4.5% based on certain revenue triggers. In tax year 2023, the rate was 4.95%, and in tax year 2024 it was 4.8%. The individual income tax rate for tax year 2025 is 4.7%. For fiscal note purposes only, and based on the current consensus revenue estimates, DOR will show the next reduction of the individual income tax rate occurring in consecutive years starting in tax year 2028 at 4.6% and in 2029 at 4.5%.

This proposal will change the language in SB 3, to allow the rate reductions to continue into the future until the individual income tax is zero. DOR notes that this would also eliminate the pass-through entity tax as it is also based on the individual income tax brackets and statutes.

DOR used its internal Income Tax Model that contains confidential taxpayer data from both the federal and state tax return to calculate the fiscal impact of this proposal. Using the tax year 2022 data, the most complete data available and accounting for the SB 3 changes DOR estimates the following tax year impact.

Tax Year	Loss to GR		Tax Year	Loss to GR
TY 1	(\$131,804,493)		TY 23	(\$2,996,914,676)
TY 2	(\$262,759,808)		TY 24	(\$3,131,550,344)
TY 3	(\$392,849,909)		TY 25	(\$3,261,330,958)
TY 4	(\$522,042,712)		TY 26	(\$3,395,658,168)
TY 5	(\$650,803,456)		TY 27	(\$3,536,463,260)
TY 6	(\$781,430,349)		TY 28	(\$3,671,502,597)
TY 7	(\$911,133,361)		TY 29	(\$3,805,825,758)
TY 8	(\$1,042,282,790)		TY 30	(\$3,939,217,934)
TY 9	(\$1,170,160,564)		TY 31	(\$4,076,550,516)
TY 10	(\$1,297,905,268)		TY 32	(\$4,208,189,536)
TY 11	(\$1,430,094,733)		TY 33	(\$4,341,302,872)
TY 12	(\$1,558,990,524)		TY 34	(\$4,477,894,456)
TY 13	(\$1,689,325,806)		TY 35	(\$4,606,767,045)
TY 14	(\$1,818,688,559)		TY 36	(\$4,736,967,116)
TY 15	(\$1,946,137,108)		TY 37	(\$4,868,532,269)
TY 16	(\$2,078,147,821)		TY 38	(\$4,996,386,725)
TY 17	(\$2,211,536,156)		TY 39	(\$5,128,409,518)
TY 18	(\$2,339,270,251)		TY 40	(\$5,256,362,577)
TY 19	(\$2,470,736,963)		TY 41	(\$5,383,557,812)
TY 20	(\$2,599,493,928)		TY 42	(\$5,511,427,025)
TY 21	(\$2,732,256,226)		TY 43	(\$5,638,143,364)
TY 22	(\$2,866,178,626)		TY 44	(\$5,762,721,328)
			TY 45	(\$8,515,185,571)

When converting from tax year to fiscal year, DOR assumes a 42%/58% split based on historical records of payments.

Fiscal Year	Loss to GR	Fiscal Year	Loss to GR
FY 1	(\$55,357,887)	FY 24	(\$3,053,461,656)
FY 2	(\$186,805,726)	FY 25	(\$3,186,058,202)
FY 3	(\$317,397,650)	FY 26	(\$3,317,748,386)
FY 4	(\$447,110,886)	FY 27	(\$3,454,796,307)
FY 5	(\$576,122,225)	FY 28	(\$3,593,179,782)
FY 6	(\$705,666,751)	FY 29	(\$3,727,918,325)
FY 7	(\$835,905,614)	FY 30	(\$3,861,850,472)
FY 8	(\$966,216,121)	FY 31	(\$3,996,897,619)
FY 9	(\$1,095,991,455)	FY 32	(\$4,131,838,904)
FY 10	(\$1,223,813,340)	FY 33	(\$4,264,097,137)
FY 11	(\$1,353,424,843)	FY 34	(\$4,398,671,337)
FY 12	(\$1,484,230,965)	FY 35	(\$4,532,020,943)
FY 13	(\$1,613,731,342)	FY 36	(\$4,661,451,074)
FY 14	(\$1,743,658,162)	FY 37	(\$4,792,224,480)
FY 15	(\$1,872,216,950)	FY 38	(\$4,922,231,140)
FY 16	(\$2,001,581,607)	FY 39	(\$5,051,836,298)
FY 17	(\$2,134,170,922)	FY 40	(\$5,182,149,803)
FY 18	(\$2,265,184,476)	FY 41	(\$5,309,784,576)
FY 19	(\$2,394,486,270)	FY 42	(\$5,437,262,882)
FY 20	(\$2,524,814,888)	FY 43	(\$5,564,647,888)
FY 21	(\$2,655,254,093)	FY 44	(\$5,690,466,109)
FY 22	(\$2,788,503,634)	FY 45	(\$6,918,756,310)
FY 23	(\$2,921,087,767)	FY 46	(\$8,515,185,571)

This proposal will require DOR to modify the department's MO-1040 form each year the individual income tax rate changes. This will result in a cost of \$7,327 to update the brackets in the individual income tax computer program each time. Additionally, the DOR website and available printable forms will need to be updated at a cost of \$2,200.

**Oversight** assumes the Department of Revenue is provided with core funding to handle a certain amount of 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.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would remove the limit of three 0.1% reduction to the top individual income tax rate. This would allow reductions to continue occurring until the individual income tax has been eliminated. B&P notes that this would also eliminate the pass-through entity tax as it is also based on the individual income tax brackets and statutes.

B&P notes that under Section 143.011, the top individual income tax rate will be 4.7% for tax year 2025. In addition, 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). For the purpose of this fiscal note, B&P will assume that the remaining two 0.1% reductions will occur for tax year 2028 (4.6%) and tax year 2029 (4.5%).

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 reduce GR by \$132,139,101 as early as tax year 2030. Once fully implemented (as early as tax year 2074), this proposal could reduce GR by \$8,515,185,571 annually. Table 1 shows the estimated impact by tax year.

Table 1: Estimated Impact by Tax Year

Tax Year	GR Impact	Tax Year	GR Impact
TY 1	(\$132,139,101)	TY 24	(\$3,139,455,329)
TY 2	(\$263,411,696)	TY 25	(\$3,269,585,836)
TY 3	(\$393,825,691)	TY 26	(\$3,404,197,320)
TY 4	(\$523,340,399)	TY 27	(\$3,545,260,009)
TY 5	(\$652,422,186)	TY 28	(\$3,680,567,918)
TY 6	(\$783,397,082)	TY 29	(\$3,815,146,999)
TY 7	(\$913,446,176)	TY 30	(\$3,948,776,872)
TY 8	(\$1,044,947,767)	TY 31	(\$4,086,389,638)
TY 9	(\$1,173,165,378)	TY 32	(\$4,218,321,728)
TY 10	(\$1,301,227,267)	TY 33	(\$4,351,718,392)
TY 11	(\$1,433,731,586)	TY 34	(\$4,488,599,450)
TY 12	(\$1,562,933,429)	TY 35	(\$4,617,716,454)
TY 13	(\$1,693,586,765)	TY 36	(\$4,748,188,056)
TY 14	(\$1,823,284,450)	TY 37	(\$4,880,059,018)
TY 15	(\$1,951,060,770)	TY 38	(\$5,008,204,444)
TY 16	(\$2,083,413,582)	TY 39	(\$5,140,585,495)
TY 17	(\$2,217,139,609)	TY 40	(\$5,268,880,857)
TY 18	(\$2,345,190,892)	TY 41	(\$5,396,397,448)
TY 19	(\$2,476,963,041)	TY 42	(\$5,524,649,979)
TY 20	(\$2,606,041,559)	TY 43	(\$5,651,758,538)
TY 21	(\$2,739,151,455)	TY 44	(\$5,776,775,575)
TY 22	(\$2,873,432,747)	TY 45	(\$8,515,185,571)
TY 23	(\$3,004,496,535)		

However, because this proposal would take effect January 1<sup>st</sup> 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. Therefore, B&P estimates that this provision could reduce GR by \$55,498,422 as early as FY30. Once fully implemented this provision could reduce GR by \$8,515,185,571 annually. Table 2 shows the estimated impact from this section by fiscal year.

Table 2: Estimated Impact by Fiscal Year

Fiscal Year	GR Impact	Fiscal Year	GR Impact
FY 1	(\$55,498,422)	FY 24	(\$3,061,179,229)
FY 2	(\$187,273,591)	FY 25	(\$3,194,110,142)
FY 3	(\$318,185,574)	FY 26	(\$3,326,122,659)
FY 4	(\$448,221,868)	FY 27	(\$3,463,443,649)
FY 5	(\$577,554,749)	FY 28	(\$3,602,089,331)
FY 6	(\$707,431,642)	FY 29	(\$3,737,091,132)
FY 7	(\$838,017,701)	FY 30	(\$3,871,271,546)
FY 8	(\$968,676,844)	FY 31	(\$4,006,574,234)
FY 9	(\$1,098,799,164)	FY 32	(\$4,141,801,116)
FY 10	(\$1,226,951,371)	FY 33	(\$4,274,348,327)
FY 11	(\$1,356,879,081)	FY 34	(\$4,409,208,436)
FY 12	(\$1,487,996,360)	FY 35	(\$4,542,828,591)
FY 13	(\$1,617,807,830)	FY 36	(\$4,672,514,527)
FY 14	(\$1,748,059,793)	FY 37	(\$4,803,573,860)
FY 15	(\$1,876,950,504)	FY 38	(\$4,933,880,097)
FY 16	(\$2,006,648,951)	FY 39	(\$5,063,804,485)
FY 17	(\$2,139,578,513)	FY 40	(\$5,194,469,547)
FY 18	(\$2,270,921,148)	FY 41	(\$5,322,437,826)
FY 19	(\$2,400,535,195)	FY 42	(\$5,450,263,511)
FY 20	(\$2,531,176,018)	FY 43	(\$5,578,035,574)
FY 21	(\$2,661,947,715)	FY 44	(\$5,704,265,694)
FY 22	(\$2,795,549,598)	FY 45	(\$6,926,907,774)
FY 23	(\$2,928,479,538)	FY 46	(\$8,515,185,571)

**Oversight** notes, currently, the state individual income tax rate (4.70% in TY 2025) is to be reduced annually in 0.1% increments (if certain triggers are met) until it reaches 4.5%. This proposal allows the current rate reductions to continue until the individual income tax rate is zero subject to the adoption of a constitutional amendment. Oversight is unable to determine when/if future rate reductions will occur. Oversight notes the fully implemented impact of this proposal is based upon 2022 data provided by DOR and is not adjusted for inflation or future revenue growth.

**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.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

<u>FISCAL IMPACT – State Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY Unknown)
<b>GENERAL REVENUE</b>				
<u>Revenue Reduction</u> - \$143.011 - Reduction of individual income tax rate, <b>if</b> approved by voters & certain revenue dependent triggers are met	\$0	\$0	\$0	\$0 or could exceed (\$8,515,185,571)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0 or Could exceed (\$8,515,185,571)</b>

<u>FISCAL IMPACT – Local Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY Unknown)
	\$0	\$0	\$0	\$0

FISCAL IMPACT – Small Business

Small businesses' taxation would be impacted by this proposal.

FISCAL DESCRIPTION

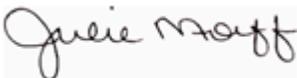
Current law authorizes reductions in the top rate of income tax contingent on certain state revenue collections, with an eventual top rate of 4.5%. This act allows the reductions in the top rate to continue until the top rate is reduced to 0%.

This act contains a referendum clause.

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  
Joint Committee on Administrative Rules



Julie Morff  
Director  
January 15, 2025



Jessica Harris  
Assistant Director  
January 15, 2025