

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0284S.01I  
Bill No.: SB 236  
Subject: Taxation and Revenue - Income  
Type: Original  
Date: January 15, 2025

---

Bill Summary: This proposal reduces the top rate of income tax.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>				
<b>FUND AFFECTED</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>Fully Implemented (FY 2031)</b>
General Revenue*	\$0	\$0	\$0	(\$132,804,493)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$132,804,493)</b>

\***Oversight** notes the state individual income tax rate (4.7% in TY 2025) is to be reduced in annual increments (if certain triggers are met) until it reaches 4.5% pursuant to SB 3 (2022). For fiscal note purposes, Oversight assumes the proposed additional rate reduction will occur in Tax Year 2030 (FY2031), bringing the top individual income tax rate to 4.4%.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>				
<b>FUND AFFECTED</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>Fully Implemented (FY 2031)</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.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 31)
<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 31)
<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 31)
<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 Reduction**

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 one additional rate reduction bringing the final reduction to 4.4% in 2030.

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 a loss to general revenue of \$131,804,493 in tax year 2030.

When converting from tax year to fiscal year, DOR assumes a 42%/58% split based on historical records of payments. Therefore, this provision could reduce general revenue by \$55,357,887 as early as FY 2030 and once fully implemented it would reduce general revenue by \$132,804,493 annually.

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

**Oversight** notes the DOR requests a one-time cost of \$9,527 for website income-tax changes and updates to comply with the proposed language; however, Oversight notes that DOR receives appropriation for routine website updates and will not show those costs in the fiscal note.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would allow for an additional 0.1% reduction in the top individual income tax rate, dependent on net general revenue growth.

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%). Therefore, the earliest this proposed reduction could occur would be tax year 2030.

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.

However, 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 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 \$132,139,101 annually.

**Oversight** notes both DOR and B&P's estimates include data from DOR's internal Income Tax Model.

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

**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 DOR's estimated impact for this proposal.

**Oversight** assumes for fiscal note purposes, the proposed additional rate reduction will occur in tax year 2030, with the fully implemented impact occurring in FY 2031, bringing the top individual income tax rate to 4.4%.

<u>FISCAL IMPACT – State Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY 2031)
<b>GENERAL REVENUE FUND</b>				
Revenue Reduction - §143.011 - Reduction of individual income tax rate	\$0	\$0	\$0	(\$132,804,493)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$132,804,493)</b>

<u>FISCAL IMPACT – Local Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY 2031)
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

Certain small businesses' taxation could be impacted by this proposal.

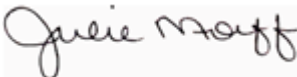
FISCAL DESCRIPTION

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 provides for an additional 0.1% reduction, for an eventual top rate of 4.4%.

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



Julie Morff  
Director  
January 15, 2025



Jessica Harris  
Assistant Director  
January 15, 2025