

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0647S.01I
 Bill No.: SB 146
 Subject: Taxation and Revenue - Income
 Type: Original
 Date: February 11, 2025

Bill Summary: This proposal eliminates the individual income tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue	(\$3,532,861,127)*	(\$8,515,185,571)	(\$8,515,185,571)
Total Estimated Net Effect on General Revenue	(\$3,532,861,127)*	(\$8,515,185,571)	(\$8,515,185,571)

***Oversight** notes the fiscal impact for FY2026 is lesser because the top individual income tax rate temporarily increases from 4.7% (current law) to 4.8% from August 2025-December 2025 before reducing to 0% effective January 1, 2026.

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

Numbers within parentheses: () indicate costs or losses.

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
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 2026	FY 2027	FY 2028
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 143.011 - Elimination of the Individual Income Tax

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would end the individual and pass-through entity income tax beginning tax year 2026.

B&P notes that section 143.011.4 is deleted on the effective date of the bill (August 28, 2025), but the replacement language would not become effective until January 1, 2026. Section 131.011.3 contains the additional rate reductions created under SB 3 (2022). The first three of which (reducing the top rate to 4.7% for tax year 2025) have been triggered and implemented.

Based on previous court precedent, income earned between January 1, 2025 and August 28, 2025 would be taxed at the current 4.7% rate, while income earned between August 28, 2025 and December 31, 2025 would be taxed at a top rate of 4.8%. For the purpose of this fiscal note, B&P will assume that income is generally earned equally throughout a year and will reflect 33.33% of income (4 out of 12 months) as earned during the higher tax rate period.

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%). Table 1 shows the estimated tax rates throughout the implementation of this proposal.

Table 1: Proposed Tax Rates

Tax Year	Current	Proposed Rate
2025*	4.7%	4.7% - Current Law (1/2025 - 8/2025) 4.8% - Proposal (9/2025 - 12/2025)
2026	4.7%	0.0%
2027	4.7%	0.0%
2028	4.6%	0.0%
2029	4.5%	0.0%

*The repeal of 143.011.3 would become effective 8/28/2025. While the new language would not begin until 1/1/2026.

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 increase GR by \$43,648,465 for tax year 2025. Beginning tax year 2026, this proposal could reduce GR by \$8,515,185,571 annually. Table 2 shows the estimated impact by tax year.

Table 2: Estimated Impact by Tax Year

Tax Year	GR Impact
TY 2025	\$43,648,465
TY 2026	(\$8,515,185,571)
TY 2027	(\$8,515,185,571)
TY 2028	(\$8,515,185,571)
TY 2029	(\$8,515,185,571)

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. (B&P notes this applies to tax year 2026+ changes.)

B&P notes that the change in section 143.011.3 would take effect the last four months of the tax year, and within FY26. Therefore, B&P will reflect the full impact from tax year 2025 as occurring during FY26.

Therefore, B&P estimates that this provision could reduce GR by \$3,532,729,475 in FY26. Beginning FY27, this proposal could reduce GR by \$8,515,185,571 annually. Table 3 shows the estimated impact from this section by fiscal year.

Table 3: Estimated Impact by Fiscal Year

Fiscal Year	GR Impact
FY 2026	(\$3,532,729,475)
FY 2027	(\$8,515,185,571)
FY 2028	(\$8,515,185,571)
FY 2029	(\$8,515,185,571)
FY 2030	(\$8,515,185,571)

Officials from the **Department of Revenue (DOR)** note this proposal eliminates the individual income tax rate. It should be noted that SB 3 adopted in 2022, set the current individual income tax rate top bracket at 4.95% in TY 2023 and set it at 4.8% in TY 2024 and based on certain revenue triggers allows the tax rate to continue to fall 0.1% until it hits 4.5%. The tax rate for tax year 2025 is 4.7%. Based on the current revenue forecasts and for fiscal note purposes only, DOR shows the final two SB 3 rate reductions occurring in tax year 2028 (4.6%) and 2029 (4.5%).

This proposal, starting January 1, 2026, would eliminate the individual income tax.

It should be noted, this proposal is removing the current SB 3 reductions effective August 28, 2025, with the passage of this proposal. That would in essence change the individual income tax rate to 4.8% for the rest of tax year 2025 starting August 28, 2025, from its current rate of 4.7%.

DOR notes that income is generally earned equally throughout a year and will reflect 33.33% of income (4 out of 12 months) as earned during the higher tax rate period, for this fiscal note.

The newly proposed tax rate would be:

Proposed Tax Rates

Tax Year	Current	Proposed Rate
2025*	4.7%	4.7% - Current Law (1/2025 - 8/2025) 4.8% - Proposal (9/2025 - 12/2025)
2026	4.7%	0.0%
2027	4.7%	0.0%
2028	4.6%	0.0%
2029	4.5%	0.0%

*The repeal of 143.011.3 would become effective 8/28/2025. While the new language would not begin until 1/1/2026.

The Department used its internal Income Tax Model that contains confidential taxpayer data for tax year 2022 data (the most complete data available) to estimate the fiscal impact.

Tax Impact by Tax Year

Tax Year	GR Impact
TY 2025	\$43,535,867
TY 2026	(\$8,515,185,571)
TY 2027	(\$8,515,185,571)
TY 2028	(\$8,515,185,571)
TY 2029	(\$8,515,185,571)

Since this proposal would change the individual income tax rate in the middle of the first year, DOR assumes many filers would be unable to adjust their withholdings and therefore the department is showing the full impact of tax year 2025, in FY 26. For all other years since the change begins each January, taxpayers would be able to adjust their withholding. Based on the department's collection data, the department knows that 42% of all individual income tax is received in the first fiscal year and 58% is received in the second year. Therefore, DOR would expect to see a loss to general revenue per fiscal year as follows:

Tax Impact by Fiscal Year

Fiscal Year	GR Impact
FY 2026	(\$3,532,842,073)
FY 2027	(\$8,515,185,571)
FY 2028	(\$8,515,185,571)
FY 2029	(\$8,515,185,571)
FY 2030	(\$8,515,185,571)

DOR notes that returns are filed between January 1st – April 15th of the year following the tax year. Therefore, all staff will be needed through the end of 2026 to handle tax year 2025 returns. Additionally, people will be filing amended returns and making payments for past owed tax years past 2026. Starting in 2027, DOR could begin a phase out of staff, depending on the remaining workload until all final returns and payments are received.

DOR assumes the eventual elimination of 194 FTE and 106 temporary staff that work with the individual income tax.

Call Center – 64
Processing - 27
Quality Review – 77
Withholding – 9
Audits - 6
General Counsel office – 6
Mailroom – 4
Legislative Team - 1

DOR notes that this would also save future mailing costs, computer programming and other expenses. The savings will not come until staff is fully phased out.

Any change in the individual income tax rate, requires DOR to modify the department's computer program at a cost of \$7,327 and the department's forms and website at a cost of \$2,200 annually. For tax year 2025, and due to the two different income tax rates DOR would have to modify it twice at a cost of \$19,054.

Oversight will note the above cost to DOR for form and computer upgrades. Oversight notes DOR anticipates savings from the elimination of the individual income tax; however, DOR does not anticipate these savings to occur until several years after the proposed elimination as taxpayers can still file/amend their income tax returns.

In response to another proposal from this session, HJR 1 (2025), officials from the **Office of Administration - Budget and Planning** noted the elimination of individual income tax revenues would result in a loss of approximately 64% of General Revenue.

Oversight notes the following, assuming a 64% reduction in the General Revenue spending authority amounts for FY 2025

HB	Agency	GR Spending Authority	64% Reduction in GR	64% GR FTE Reduction
2002	DESE	\$3,992,986,991	\$2,555,511,674	539
2003	DHE	\$1,280,038,294	\$819,224,508	221
2004	Revenue	\$75,718,764	\$48,460,009	70
2005	Transportation	\$580,596,245	\$371,581,597	427
2005	Office of Administration	\$586,133,170	\$375,125,229	804
2005	Employee Fringe Benefits	\$945,990,839	\$605,434,137	0
2006	Agriculture	\$28,214,225	\$18,057,104	123
2006	Natural Resources	\$80,695,261	\$51,644,967	91
2006	Conservation	\$0	\$0	0
2007	Economic Development	\$153,264,274	\$98,089,135	9
2007	Commerce and Insurance	\$6,250,258	\$4,000,165	38
2007	Labor and Industrial Relations	\$3,505,108	\$2,243,269	5
2008	Public Safety	\$135,621,084	\$86,797,494	315
2008	National Guard	\$12,137,570	\$7,768,045	71
2009	Corrections	\$884,958,245	\$566,373,277	6,029
2010	Mental Health	\$1,585,697,119	\$1,014,846,156	1,815
2010	Health and Senior Services	\$597,179,177	\$382,194,673	301
2011	Social Services	\$2,778,130,983	\$1,778,003,829	782
2012	Elected Officials	\$149,464,031	\$95,656,980	295
2012	Judiciary	\$261,531,737	\$167,380,312	1,978
2012	Public Defender	\$62,584,900	\$40,054,336	365
2012	General Assembly	\$47,285,590	\$30,262,778	439
2013	Statewide Real Estate	\$101,161,943	\$64,743,644	0

*Source: [Budget Fast Facts](#)

Officials from the **Department of Commerce and Insurance, Department of Natural Resources, and the Department of Health and Senior Services** each defer to the Office of Administration - Budget and Planning for the potential fiscal impact of this proposal.

Officials from the **Department of Social Services (DSS)** assume this bill could impact Social Services' ability to carry out its functions. Officials from the DSS defer to the Office of Administration - Budget and Planning for the potential fiscal impact of this proposal.

Officials from the **Department of Economic Development** defer to the Department of Revenue for the potential fiscal impact of this proposal.

Officials from the **Missouri Department of Agriculture** and the **Office of the State Treasurer** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

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
GENERAL REVENUE FUND			
<u>Revenue Loss - §143.011 - Elimination of the Individual tax</u>	(\$3,532,842,073)	(\$8,515,185,571)	(\$8,515,185,571)
<u>Cost -§143.011 - DOR - Form and computer upgrades</u>	(\$19,054)	\$0	\$0
<u>Savings - §143.011 – DOR – administrative savings</u>	Unknown	Unknown	Unknown
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	Less than (\$3,532,861,127)	Less than (\$8,515,185,571)	Less than (\$8,515,185,571)

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

FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that is obligated to pay individual income tax, as such small business would pay a reduced amount of such tax(es), and eventually no individual income tax.

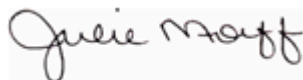
FISCAL DESCRIPTION

Current law imposes an income tax on all Missouri taxable income. For all tax years beginning on or after January 1, 2026, this act eliminates the Missouri individual income tax.

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

Office of Administration - Budget and Planning
 Department of Commerce and Insurance
 Department of Economic Development
 Department of Health and Senior Services
 Department of Natural Resources
 Department of Revenue
 Department of Social Services
 Missouri Department of Agriculture
 Office of the Secretary of State
 Office of the State Treasurer
 Joint Committee on Administrative Rules



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 February 11, 2025



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