COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1153S.01I
Bill No.: SB 27
Subject: Education, Higher; Taxation and Revenue - Income; Abortion
Type: Original
Date: January 17, 2025

Bill Summary: This proposal modifies provisions relating to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue Fund	($93,176,582)	$6,475,522	$7,253,385
Total Estimated Net Effect on General Revenue	**($93,176,582)**	**$6,475,522**	**$7,253,385**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Total Estimated Net Effect on Other State Funds	**$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 All 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 - Income Tax Rate Reduction

Officials from the **Department of Revenue (DOR)** note this section states that the top individual income tax rate shall be reduced by 0.17% beginning January 1, 2026. The top rate of tax may only be reduced if one or more institutions are subject to the endowment tax authorized in Section 146.200.

Based on current revenue forecasts and average revenue growth, B&P estimates that revenues in FY27 and FY28 will reach the SB 3 (2022) growth trigger requirement for reductions to the top rate of tax. Therefore, the top rate of tax is estimated to be reduced in tax years 2028 and 2029 under SB 3 (2022).

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 section may reduce tax collections by $221.8M for calendar year 2026. Once SB 3 (2022) has fully implemented, B&P estimates this provision could reduce tax collections by $225.4M annually. Table 1 shows the assumed top tax rates and estimate impact by calendar year.

Table 1: Income Tax Reduction by Calendar Year

Tax Year	Top Tax Rate - Current Law*	Top Tax Rate - Proposal	GR Impact
2025	4.7%	4.80%	$0
2026	4.7%	4.53%	($221,849,005)
2027	4.7%	4.53%	($221,076,321)
2028	4.6%	4.43%	($220,291,307)
2029	4.5%	4.33%	($225,359,773)

**Assumes rate reductions scheduled to occur under SB 3 (2022) are triggered for TY28 and TY29*

However, because this proposal would take effect January 1, 2026, individuals will adjust their withholdings and declarations during FY26. 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 will reduce TSR and GR by $93.2M in FY26. Once SB 3 (2022) has been fully implemented in FY30, and annually thereafter, this proposal may reduce TSR and GR by $225.4M. Table 2 shows the estimated impact from this section by fiscal year.

Table 2: Income Tax Reduction by Fiscal Year

Fiscal Year	GR Impact
FY 26	($93,176,582)
FY 27	($221,524,478)
FY 28	($220,746,615)
FY 29	($222,420,063)
FY 30	($225,359,773)

**Assumes rate reductions scheduled to occur under SB 3 (2022) are triggered for TY28 and TY29*

Officials from the **Office of Administration - Budget and Planning (B&P)** note this section states that the top individual income tax rate shall be reduced by 0.17% beginning January 1, 2026. The top rate of tax may only be reduced if one or more institutions are subject to the endowment tax authorized in Section 146.200.

Based on current revenue forecasts and average revenue growth, B&P estimates that revenues in FY27 and FY28 will reach the SB 3 (2022) growth trigger requirement for reductions to the top rate of tax. Therefore, the top rate of tax is estimated to be reduced in tax years 2028 and 2029 under SB 3 (2022).

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 section may reduce tax collections by $221.8M for calendar year 2026. Once SB 3 (2022) has fully implemented, B&P estimates this provision could reduce tax collections by $225.4M annually. Table 1 shows the assumed top tax rates and estimate impact by calendar year.

Table 1: Income Tax Reduction by Calendar Year

Tax Year	Top Tax Rate - Current Law*	Top Tax Rate - Proposal	GR Impact
2025	4.7%	4.70%	$0
2026	4.7%	4.53%	($221,849,005)
2027	4.7%	4.53%	($221,076,321)
2028	4.6%	4.43%	($223,429,616)
2029	4.5%	4.33%	($225,359,773)

**Assumes rate reductions scheduled to occur under SB 3 (2022) are triggered for TY28 and TY29*

However, because this proposal would take effect January 1, 2026, individuals will adjust their withholdings and declarations during FY26. 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 will reduce TSR and GR by $93.2M in FY26. Once SB 3 (2022) has been fully implemented in FY30, and annually thereafter, this proposal may reduce TSR and GR by $225.4M. Table 2 shows the estimated impact from this section by fiscal year.

Table 2: Income Tax Reduction by Fiscal Year

Fiscal Year	GR Impact
FY 26	($93,176,582)
FY 27	($221,524,478)
FY 28	($222,064,705)
FY 29	($224,240,282)
FY 30	($225,359,773)

**Assumes rate reductions scheduled to occur under SB 3 (2022) are triggered for TY28 and TY29*

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

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 B&P and DOR. Therefore, for the purpose of this fiscal note, Oversight will utilize B&P's estimated impact for this proposal.

Oversight notes for the purpose of the fiscal note, Oversight assumes a top income tax rate of 4.7% in tax year 2025 (FY 2026) and future income tax rate reductions from SB 3 (2022) will trigger consecutively (4.6% in FY 2027 and 4.5% in FY 2028+).

<u>Section 146.200 – Endowment Tax</u>

Officials from the **Department of Revenue (DOR)** note this section would create a 1.9% tax on qualifying endowments, beginning with tax year 2026. B&P notes that because the tax covers tax year 2026, final returns by impacted institutions would not be filed until 2027. Revenues generated by the endowment tax shall be deposited into GR.

Endowment is defined as a permanent fund held by an institution of higher education consisting of property, cash, cash equivalents, stocks, bonds, or any other marketable security; is used for specific purposes indicated by donors or related to the mission of the higher education institution; and the institution attempts to maintain and grow the principle of such fund while annually dispersing at least a portion of the investment earnings.

A tax of 1.9% shall be levied on such endowment if an institution of higher education: is affiliated with or provides medical faculty to an abortion facility, offers specific medical residencies or fellowships in performing or inducing abortions, or supports abortion facilities in any manor, when the abortions are not necessary to save the life of the mother. B&P notes that Washington University is the only institution of higher education located within Missouri that would meet this standard.

Based on Washington University's 2024 annual endowment report, the university had an endowment with a market value of approximately $12,000,000,000. Therefore, B&P estimates that a 1.9% endowment tax could increase GR and TSR by $228.0M annually beginning in FY27.

Summary
B&P estimates that this proposal may decrease TSR and GR by $93.2M in FY26. Once SB 3 (2022) has fully implemented, this proposal could increase TSR and GR by $2.6M annually. Table 3 shows the impact to TSR and GR by fiscal year.

Table 3: Summary

Provision	FY 2026	FY 2027	FY 2028
Income Tax Rate Reduction*	($93,176,582)	($221,524,478)	($220,746,615)
Endowment Tax	$0	$228,000,000	$228,000,000
Total Impact to TSR/GR	($93,176,582)	$6,475,522	$7,253,385

**Assumes rate reductions scheduled to occur under SB 3 (2022) are triggered for TY28 and TY29*

Table 3: Summary (cont.)

Provision	FY 2028	FY 2029
Income Tax Rate Reduction*	($222,420,063)	($225,359,773)
Endowment Tax	$228,000,000	$228,000,000
Total Impact to TSR/GR	$5,579,937	$2,640,227

**Assumes rate reductions scheduled to occur under SB 3 (2022) are triggered for TY28 and TY29*

Officials from the **Office of Administration - Budget and Planning (B&P)** note this section would create a 1.9% tax on qualifying endowments, beginning with tax year 2026. B&P notes that because the tax covers tax year 2026, final returns by impacted institutions would not be filed until 2027. Revenues generated by the endowment tax shall be deposited into GR.

Endowment is defined as a permanent fund held by an institution of higher education consisting of property, cash, cash equivalents, stocks, bonds, or any other marketable security; is used for specific purposes indicated by donors or related to the mission of the higher education institution; and the institution attempts to maintain and grow the principle of such fund while annually dispersing at least a portion of the investment earnings.

A tax of 1.9% shall be levied on such endowment if an institution of higher education: is affiliated with or provides medical faculty to an abortion facility, offers specific medical residencies or fellowships in performing or inducing abortions, or supports abortion facilities in any manor, when the abortions are not necessary to save the life of the mother. B&P notes that Washington University is the only institution of higher education located within Missouri that would meet this standard.

Based on Washington University's 2024 annual endowment report, the university had an endowment with a market value of approximately $12,000,000,000. Therefore, B&P estimates that a 1.9% endowment tax could increase GR and TSR by $228.0M annually beginning in FY27.

Summary
B&P estimates that this proposal may decrease TSR and GR by $93.2M in FY26. Once SB 3 (2022) has fully implemented, this proposal could increase TSR and GR by $2.6M annually. Table 3 shows the impact to TSR and GR by fiscal year.

Table 3: Summary

Provision	FY 2026	FY 2027	FY 2028
Income Tax Rate Reduction*	($93,176,582)	($221,524,478)	($222,064,705)
Endowment Tax	$0	$228,000,000	$228,000,000
Total Impact to TSR/GR	($93,176,582)	$6,475,522	$5,935,295

**Assumes rate reductions scheduled to occur under SB 3 (2022) are triggered for TY28 and TY29*

Table 3: Summary (cont.)

Provision	FY 2028	FY 2029
Income Tax Rate Reduction*	($222,420,063)	($225,359,773)
Endowment Tax	$228,000,000	$228,000,000
Total Impact to TSR/GR	$5,579,937	$2,640,227

**Assumes rate reductions scheduled to occur under SB 3 (2022) are triggered for TY28 and TY29*

Oversight notes the endowment tax would not occur (or not occur until a later tax year) provided no institutions meet the aforementioned criteria. For purposes of this fiscal note, Oversight will assume this proposed legislation will not change Washington University's practice(s). Therefore, Oversight will assume the endowment tax proposed will occur in Tax Year 2026 in which such tax returns would be filed after January 1, 2027 (Fiscal Year 2027).

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.

FISCAL IMPACT – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
GENERAL REVENUE FUND			
Revenue Reduction - §143.011 - Individual Income Tax Rate Reduction	($93,176,582)	($221,524,478)	($220,746,615)
Revenue Gain - §146.200 - Endowment tax	$0	$228,000,000	$228,000,000
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($93,176,582)**	**$6,475,522**	**$7,253,385**

FISCAL IMPACT – Local Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
	$0	**$0**	**$0**

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

This act modifies several provisions relating to taxation.

INDIVIDUAL INCOME TAX

For all tax years beginning on or after January 1, 2026, this act reduces the top rate of tax by 0.17%. Such reduction in the top rate of tax shall only occur if one or more institutions is subject to the tax on the endowments of higher education institutions imposed under this act. (Section 143.011)

HIGHER EDUCATION ENDOWMENT TAX

For all tax years beginning on or after January 1, 2026, this act imposes a tax on the endowments of qualifying institutions of higher education at a rate of 1.9% of the aggregate fair market value of the assets of such endowments. The tax shall apply to the endowments, as defined in the act, of higher education institutions that 1) are affiliated with, or provide medical faculty to, any abortion facility, 2) offer specific medical residencies or fellowships that offer training in performing or inducing abortions, or 3) support in any manner any abortion facility where abortions are performed or induced when not necessary to save the life of the mother. Any institution that becomes a qualifying institution of higher education on or after January 1, 2026, shall remain subject to the tax imposed by the act regardless of whether such institution no longer meets the definition of qualifying institution of higher education as defined in the act.

All revenues generated by the endowment tax shall be deposited in the General Revenue Fund. (Section 146.200)

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 17, 2025

Jessica Harris
Assistant Director
January 17, 2025