COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1285S.02I
Bill No.: SJR 20
Subject: Appropriations; Constitutional Amendments; Taxation and Revenue - General; Taxation and Revenue - Income; Taxation and Revenue - Sales and Use
Type: Original
Date: January 9, 2025

Bill Summary: This resolution modifies provisions relating to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue**	$0 or More than ($8,019,054)*	$0 to Unknown*** or Less than ($119,135,661)	$0 to Unknown*** or Greater than ($238,164,022)
Total Estimated Net Effect on General Revenue* **	**$0 or More than ($8,019,054)**	**$0 to Unknown*** or Less than ($119,135,661)**	**$0 to Unknown*** or Greater than ($238,164,022)**

* **Oversight** notes the potential fiscal impact of "(More than $8,000,000)" would be realized only if a special election were called by the Governor to submit this joint resolution to voters. All other impacts to state funds would be realized only if the joint resolution is approved by voters.
****Oversight** notes, under current law, the state individual income tax rate (4.70% in TY 2025) is to be reduced in annual 0.1% increments (if certain triggers are met) until it reaches 4.5%. This proposal allows for additional reductions of the individual income tax rate until the rate is reduced to zero. Additionally, it allows for reductions of the corporate income tax rate until the rate is reduced to zero. Oversight notes revenues for individual income tax for FY 2024 total $9,048,940,276 and revenues for corporate income tax for FY 2024 total $1,050,710,284. However, Oversight assumes the reduction and elimination of the individual and corporate tax would require implementing language and any fiscal impact would be calculated in the implementing language's fiscal note. **Additional individual income and corporate tax rate changes could occur beyond FY 2028 (pending voter approval AND additional triggers being met – those are not reflected in the table above)**. Oversight notes the impact would be significant.
*****Oversight** notes the potential savings to the General Revenue Fund are from cost avoidance if appropriation authority of the General Assembly is limited by this proposal (pending voter approval). Oversight assumes the impact would be significant. Oversight notes that although the proposed spending limit on general revenue and various state funds may have a positive fiscal

impact on state funds, the spending limit may have a negative fiscal impact on state departments and programs who receive the funds.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Tax Reform Fund	$0	$0	$0 or Unknown
Other State Funds*	$0	$0 or Unknown	$0 or Unknown
Conservation Commission Fund (0609)	$0	$0 or could exceed $4,471	$0 or could exceed $13,413
Parks and Soils State Sales Tax Fund(s) (0613 & 0614)	$0	$0 or could exceed $5,589	$0 or could exceed $10,730
State Road Bond Fund (0319)	$0	$0 or less than ($7,694,555)	$0 or less than ($15,389,111)
State Road Fund (0320)	$0	$0 or less than ($5,617,025)	$0 or less than ($11,234,051)
State Transportation Fund (0675)	$0	$0 or less than ($153,891)	$0 or less than ($307,782)
Total Estimated Net Effect on Other State Funds	**$0**	**$0 or Unknown to (Less than $13,455,411)**	**$0 or Unknown to (Less than $26,906,801)**

*Oversight notes the potential savings to other state funds are from cost avoidance if appropriations are limited by this proposal (pending voter approval). Oversight notes that although the proposed spending limit on general revenue and various state funds may have a positive fiscal impact on state funds, the spending limit may have a negative fiscal impact on state departments and programs who receive the funds.
Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Federal Funds	$0	$0	$0
Total Estimated Net Effect on All Federal Funds*	**$0**	**$0**	**$0**

*Cost avoidance and losses net to $0. Oversight notes the potential savings to federal funds is from cost avoidance if appropriations are limited by this proposal (pending voter approval) followed by a loss of those funds if they are not appropriated.

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 or could exceed ($1,923,639)****	**$0 or could exceed ($3,847,278)****

*Potential costs and state reimbursements net to zero in FY 2026 if a special election is called.
**Oversight assumes some local political subdivisions may experience a loss of state funds if funds are subject to an appropriation limit.

FISCAL ANALYSIS

ASSUMPTION

Section 20.2 - Appropriation Spending Limits

Officials from the **Office of Administration - Budget and Planning (B&P)** note this section would limit the total budget based on Missouri population growth.

The following limits would be applied to appropriation growth:

- Population growth over 1.0% - spending limit equal to 100% of the prior year's appropriation plus population growth
  - Ex: population growth = 1.2% then appropriation limit = 101.2% of prior year appropriation.
- Population growth between 0% - 1% - spending limit equal to 101% of prior year appropriation
- Population growth less than 0% - spending limit equal to 100% of prior year's appropriation less population growth
  - Ex: population growth = (1.2%) then appropriation limit = 98.8% of prior year's appropriation

B&P notes the following issues with the proposed language:

- Population measures: The proposal does not indicate which population measure should be used. B&P notes that the U.S. Census Bureau provides 1-year ACS population estimates, 5-year ACS population estimates, and intercensal (July to June) estimates.
  - Using the 5-year ACS, population growth has ranged from 0.2% to 0.6% each year from 2010 through 2023.
  - Using the 1-year ACS, population growth has ranged from (0.4%) to 0.9% each year from 2010 through 2023.
  - Using the intercensal estimates, population growth has ranged from 0.2% to 0.3% each year from 2010 through 2023.
- Spending limit: The "spending limit" shall be further reduced by deductions, exemptions, credits, and other tax preferences "issued" in the previous fiscal year. This provision will artificially reduce the amount of money that may be appropriated.
  - B&P notes that this provision would effectively count these items twice. They are already excluded from anticipated (and actual) revenues. Thus, they are already not included in appropriation funding.
  - The value of some tax preferences is unknown. For example, businesses are not required to report non-taxable sales on their sales tax reports.
  - The value of some tax preferences is unknown until after the items have been claimed, which may be well after appropriations for a given fiscal year have been made. For example, it can take years before the true value of a deduction,

subtraction, or certain tax credits is known as taxpayers may amend their tax returns for three years.
    - Some tax credits are meant to prevent double taxation. Subtracting them from the appropriation limit would essentially negate the associated tax collections. For example, the SALT Parity tax credits are granted to individual taxpayers for income tax paid by their business. This prevents both the business and the individual from paying taxes on the exact same income. Subtracting those tax credits from the appropriation limit, would essentially offset all the income earned through the pass-through entity tax.
    - Most tax preferences are not "issued", rather taxpayers claim them by either not sending in taxes (for sales of non-taxable items) or by claiming the items on their tax returns (like the standard deduction).
- Emergency Limit: In the event of an emergency, the appropriation limit may be increased up to 102% of the prior year's appropriation amount. B&P notes that in the event population growth was greater than 2%, this emergency limit could be lower than the actual appropriation limit for that year.
- Undefined Terms:
    - The term "spending limit" is not defined. It is unclear whether this term means the current budget appropriation or should include supplementals appropriations for prior budget years.
    - The term "moneys available for appropriation" is undefined. B&P notes that the term is exceptionally broad and vague. Therefore, B&P assumes that it would encompass all state and federal funds as well as cash balances.
- Timing:
    - This proposal would take effect in January 2027. B&P notes that this is during the FY28 budget cycle. It is unclear whether the intent is to start the spending limit for FY28; however, the needed data would not be available.
    - The language requires the spending limit to be calculated using the most recent calendar year growth. B&P notes that population figures are available with a minimum of a one-and-a-half-year lag.
    - By the time calendar year 2027 population estimates are available, the FY28 budget would have already been enacted.

B&P notes that this limit applies to all spending sources, not just GR spending. Based on data published by the U.S. Census Bureau, Missouri's population has grown between 0.1% and 0.3% each year since at least 2010, using the intercensal estimates.

Officials from the **Department of Revenue (DOR)** note this is a constitutional amendment that may be voted on at the November 2026 general election. If the amendment is not adopted, there will be no fiscal impact. If adopted, it is assumed it becomes effective January 1, 2027. This amendment modifies how the state budget is to be calculated and provides for reductions in the individual income tax rate. It should be noted this is at the beginning of a tax year but in the middle of a budget year.

Currently per Article X, Section 20.1 the budget of the state of Missouri does not allow any expenses of the state government to be incurred in any year which expenses exceed the sum of revenue. Therefore, the language just codifies that the state cannot spend more money than it receives in revenue.

Section 20.1
This proposal adds language placing additional limits on the amount the state can appropriate (spend) annually. DOR notes that many of the terms used in this proposal appear vague and are not defined. DOR notes that when working with tax laws and budgets all terms need clear and concise definitions. However, DOR is not responsible for determining how funds are appropriated. DOR defers to BAP for impact of this provision.

Officials from the **Department of Health and Senior Services** note Section 20.2 limits the general assembly's ability to increase appropriation authority based on the increase of population in the State. This legislation could restrict the Departments ability to request additional appropriation authority for new Federal Dollars appropriated to the State, as well as responding to inflation in current programs. Without the ability to increase appropriation, the Departments ability to respond to emergency situation such as Pandemics, Natural Disasters or Man-made disaster could be restricted. Without sufficient appropriation authority funds received from Federal Partners may not be able to be utilized. In addition, as inflation occurs, and no new ability to increase spending or utilization of funds the Department s ability to maintain current programs could be affected.

The Department has an unknown impact as the department cannot determine how this will impact their agency and would be based on the circumstances at the time and that any pandemic response actuals would not be indicative of the past specific impacts.

Officials from the **Department of Economic Development (DED)** defer to the Office of Administration - Budget and Planning for the potential fiscal impact of this proposal. DED has GR-funded programs that could be impacted by a reduction in income revenues, but DED would like to defer to Budget and Planning for the Statewide GR and TSR impacts.

Officials from the **Department of Mental Health** defer to the Office of Administration Division of Budget and Planning for a statewide revenue reduction estimate. As the department cannot predict how any remaining post reduction funds will be appropriated, the department can only say this legislation may impact the department's ability to carry out its functions.

Oversight notes the following spending authority operating totals according to the 2024 Budget Fast Facts report:

General Revenue	$14,948,248,625
Federal Funds	$24,033,697,397
Other Funds	$11,485,732,808
TOTAL	$50,467,678,830

Oversight notes the following spending authority amounts from FY 2015 to FY 2025 per the Budget Fast Facts:

Spending Authority - Operating Total						
Fiscal Year	General Revenue	Change from Previous Year	Federal Funds	Change from Previous Year	Other State Funds	Change from Previous Year
FY 2015	8,699,393,636	N/A	8,586,505,770	N/A	8,845,623,626	N/A
FY 2016	8,854,825,360	1.8%	8,638,730,018	0.6%	8,535,220,982	-3.5%
FY 2017	9,526,396,598	7.6%	9,078,330,242	5.1%	8,653,400,793	1.4%
FY 2018	9,367,307,893	-1.7%	9,250,792,127	1.9%	9,092,186,619	5.1%
FY 2019	9,425,983,507	0.6%	9,497,895,008	2.7%	9,377,311,544	3.1%
FY 2020	10,110,992,996	7.3%	9,851,393,416	3.7%	9,698,133,572	3.4%
FY 2021	10,008,035,292	-1.0%	14,755,905,165	49.8%	10,516,644,381	8.4%
FY 2022	10,427,854,946	4.2%	14,184,101,561	-3.9%	10,350,616,534	-1.6%
FY 2023	12,084,286,014	15.9%	23,574,743,695	66.2%	11,468,044,528	10.8%
FY 2024	15,221,017,356	26.0%	24,291,613,117	3.0%	12,333,832,071	7.5%
FY 2025	14,948,248,625	-1.8%	24,033,697,397	-1.1%	11,485,732,808	-6.9%

Oversight notes according to the US Census Bureau, the state population increased by approximately 0.31% from 2022-2023.

Oversight will show the proposed spending limit on appropriated funds as cost avoidance to the general revenue fund, federal funds, and various state funds, pending voter approval.

Oversight is unable to determine future growth for the state population and is unable to determine how much the limit would impact future appropriations relative to what would have occurred without an appropriation limit. Therefore, Oversight will show the fiscal impact as a range of $0 (not approved by voters) to an unknown positive amount as surplus funds are generated. Oversight assumes the fiscal impact could be significant.

Oversight notes that although the proposed spending limit on general revenue and various state funds may have a positive fiscal impact on state funds, the spending limit may have a negative fiscal impact on state departments and programs who receive the funds.

Section 26 - Sales Tax

Officials from the **Office of Administration - Budget and Planning (B&P)** note this provision would remove the prohibition on expanding state and local sales / use taxes to goods and services that were not taxable as of January 1, 2015.

This provision would allow the general assembly to expand the state sales tax to include services. If a bill expanding sales tax to services is passed and approved, the state statutory sales tax rate shall be capped at 3.775%.

This proposal would also levy a 6% state sales tax on lobbying services.

Existing Sales Tax Reduction
B&P notes that the current total state sales tax rate is 4.225%, of which 4% is statutory. B&P further notes that of the 4% statutory tax, 3% is for general sales tax and 1% is dedicated to education (per Section 144.701). B&P assumes that the 0.225% reduction (4% - 3.775%) will be fully taken against the 3% general sales tax.

This proposal would enact the tax rate reduction beginning the January after a bill expanding sales tax to services is passed and approved. B&P notes that this proposal does not consider when the expansion is actually enacted. Therefore, a bill could pass that expands sales tax but that does not become effective until well after this sales tax cut has been triggered and enacted. This could result in a negative impact to state funds.

B&P notes that the 3% general tax on tangible goods is deposited into the state General Revenue (GR) fund. However, the 3% general tax on motor vehicles, trailers, boats, and outboard motors are deposited into multiple road related funds.

Tangible Personal Property Sales Tax – 3% General Rate
In FY24, GR sales tax collections were $3,184,104,292. B&P estimates that there were $106,136,809,747 in GR taxable sales. Therefore, B&P estimates that a 0.225% reduction in the tax rate could reduce GR by $238,807,822 annually.

Motor Vehicle Sales Tax – 3% General Rate
B&P notes that the 3% tax on motor vehicles is deposited into the State Road Bond Fund (50%); the State Road Fund (36.5%); the State Transportation Fund (1%); and the Fuel Local Deposit Fund (FLOYD)(12.5%) which is then distributed to local jurisdictions.

In FY24, the state 3% MV sales tax collections were $410,376,290. B&P estimates that there were $13,679,209,673 in MV taxable sales. Therefore, B&P estimates that a 0.225% reduction in the tax rate could reduce MV sales tax collections by $30,778,222 annually.

Existing Sales Tax Summary

B&P estimates that if triggered, this provision could reduce general revenue by $238,807,822 annually. This provision could also reduce motor vehicle sales tax funds by $30,778,222 annually. Table 1 shows the estimate impact by fund.

Table 1: Estimated Impact by Fund

State Funds	FY1 (1/2 Year)	FY2+
General Revenue	($119,403,911)	($238,807,822)
State Road Bond Fund	($7,694,555)	($15,389,111)
State Road Fund	($5,617,025)	($11,234,051)
State Transportation Fund	($153,891)	($307,782)
Local Funds		
FLOYD	($1,923,639)	($3,847,278)

Potential Expansion to Services
This proposal would allow the general assembly to expand the state sales tax law to include services. B&P notes that it is unknown what services may be included in such expansion, the timing, or potential tax rate(s). In addition, any future legislation would contain actual estimated impacts to state and local revenues.

However, B&P pulled personal consumption data published by the BEA to provide an idea of what sales tax collections could be if state law was expanded to include all, or some, services. Table 2 shows personal consumption expenditures for services within Missouri from 2021 – 2023.

Table 2: Consumption by Service Category *($M)*

Service Category	**2021**	**2022**	**2023**
All Services	*$179,672.8*	*$196,321.8*	*$212,649.7*
Health care	$48,863.2	$52,049.9	$58,085.6
Transportation services - MV Services	$6,289.1	$6,963.1	$7,416.6
Financial services and insurance	$21,927.7	$24,039.3	$26,354.1
Education services	$4,887.4	$5,145.3	$5,347.7
Professional and other services	$3,952.1	$4,037.1	$4,265.5
Personal care and clothing services	$1,674.4	$1,928.8	$2,153.7

Table 3 shows potential revenue gains by expanding the sales tax base to all, or some, services. B&P notes that under this proposal the new GR tax rate would be 2.775%

Table 3: Potential Revenue Gains from Sales Tax Expansion

Potential 1% Tax *($M)*	**2021**	**2022**	**2023**
All Services	*$1,796.7*	*$1,963.2*	*$2,126.5*
Health care	$488.6	$520.5	$580.9
Transportation services - MV Services	$62.9	$69.6	$74.2
Financial services and insurance	$219.3	$240.4	$263.5
Education services	$48.9	$51.5	$53.5
Professional and other services	$39.5	$40.4	$42.7
Personal care and clothing services	$16.7	$19.3	$21.5

Potential 2.775% Tax *($M)*	**2021**	**2022**	**2023**
All Services	*$4,985.9*	*$5,447.9*	*$5,901.0*
Health care	$1,356.0	$1,444.4	$1,611.9
Transportation services - MV Services	$174.5	$193.2	$205.8
Financial services and insurance	$608.5	$667.1	$731.3
Education services	$135.6	$142.8	$148.4
Professional and other services	$109.7	$112.0	$118.4
Personal care and clothing services	$46.5	$53.5	$59.8

New Sales Tax on Lobbying Services

Section 26.2 levies a new additional state sales tax of 6% on lobbying services. B&P notes that lobbying services is not currently taxable under Chapter 144 (Sales Tax Law). B&P notes that Chapter 144 is currently limited to sales of tangible personal property. Therefore, until the general assembly passes the corresponding statutory bill expanding Chapter 144 to include rendered services, B&P assumes that only this 6% tax in this proposal plus 0.225% Constitutional (DNR and MDC) taxes would be applied to lobbying services. B&P further assumes that all revenue generated from the 6% tax would be deposited into general revenue.

If subsequent legislation expands sales tax to include services, then the state tax rate for lobbying services would increase to include existing state and local sales taxes. For a total state rate of 10% (3.775% statutory + 0.225% MDC and DNR + 6% proposed).

B&P was unable to find exact information on the amount of revenue generated from lobbying services. However, B&P was able to find that on average, lobbying fees range from $5,000 to $10,000 depending on the complexity of the issue.

Based on data published by the Missouri Ethics Committee, there are 856 registered lobbyists in Missouri, with 2,147 principles. Assuming each principal pays between $5,000 and $10,000 for lobbying services, B&P estimates that lobbying services generate from $10,730,000 to $107,300,000 in service-related sales.

Therefore, B&P estimates that this provision could generate greater than $643,800 ($10,730,000 x 6%) to significantly less than $6,438,000 ($107,300,000 x 6%) in new general revenue. In addition, this proposal could generate greater than $13,413 to significantly less than $134,125 in new revenue to MDC and greater than $10,730 to significantly less than $53,650 in new revenue to DNR.

If voter approved, this provision would become effective January 1, 2027. Therefore, this provision may increase general revenue by greater than $321,900 to significantly less than $3,219,000 in FY27. Beginning FY28 this provision could increase general revenue by $643,800 to significantly less than $6,438,000 annually.

Officials from the **Department of Revenue (DOR)** note the following:

Section 26.1(1)
Currently, the Missouri Constitution contains a prohibition on increasing state and local sales tax on any transaction that was not taxed as of January 1, 2015. At that time only tangible personal property was assessed sales tax. This proposal repeals that language effective January 1, 2027 (the effective date of the amendment).

This proposal also on January 1, 2027, would modify the current state sales tax rate. The current state sales tax rate for all items other than motor vehicles is 4.225% which is divided as follows:

General Revenue	3%
School District Trust Fund (Section 144.701)	1%
Conservation Commission Fund (Article IV, Section 43(a))	0.125%
Parks, Soil & Water Funds (Article IV, Section 47(a))	0.1%

The current Motor Vehicle Sales and Use tax is 4.225% (Article IV, Section 30(b)) – which is distributed as follows:

State Road Bond Fund 1.5%
Highway Use 1.5%
    Highway Use is constitutionally divided as follow:
        10% counties- Local money goes into the FLOYD FUND
        15% cities – Local money goes into the FLOYD FUND
        2% transportation fund
        73% state road fund
Conservation is .125%
Parks, Soil & Water is .1%
The 1% to school districts goes to:
    50% to School District Trust Fund

50% to Highway Use (as listed above)

As noted above the current statutory sales tax rate is 4% with the constitutionally created state sales tax rate being 0.225%. This proposal, effective January 1, 2027, lowers the statutorily created rate from 4% to 3.775%. DOR notes this reduction would be to the general revenue portion of the sales tax on regular items purchased and on several different funds on motor vehicles.

DOR calculated the impact to the designated funds from this reduction.

Table 1: Estimated Impact by Fund

State Funds	FY1 (1/2 Year)	FY2+
General Revenue	($119,403,911)	($238,807,822)
State Road Bond Fund	($7,694,555)	($15,389,111)
State Road Fund	($5,617,025)	($11,234,051)
State Transportation Fund	($153,891)	($307,782)
Local Funds		
FLOYD	($1,923,639)	($3,847,278)

This would result in DOR needing to modify the sales tax rate in its computer systems ($7,327), and changes to its forms and website ($2,200).

Section 26.1(2)
This proposal would allow the General Assembly to pass additional legislation making services subject to state sales tax law. It should be noted that expansion of the state sales tax law could also expand the local sales tax. DOR assumes it is unknown what services may be included in such expansion, the timing, or potential tax rate.

For informational purposes only and using the Bureau of Economic Analysis report on personal consumption, if the law were expanded to include all included services in the report, then a 1% sales tax would generate $1,796,728,000 in new revenue. DOR notes any fiscal impact from an expansion of the sales tax would require implementing language and any fiscal impact would be calculated in the implementing language's fiscal note.

Section 26.2
This proposal will implement a new state sales tax on lobbying services starting January 1, 2027. The rate in the proposal is 6% and it will be deposited into general revenue. Additionally, this new tax on lobbying services would be assessed the constitutionally created state sales tax bringing the rate on lobbying to 6.225%.

DOR does not have information on lobbying services nor was the department able to find exact information on the amount of revenue generated from lobbying services. However, the

department found that on average, lobbying fees range from $5,000 to $10,000 depending on the complexity of the issue or type of service provided.
Using data published by the Missouri Ethics Committee, there are 856 registered lobbyists in Missouri, with 2,147 principles. If every lobbyist charges between $5,000 and $10,000 for their service to each of their principles the lobbying services would generate from $10,730,000 to $107,300,000 in service-related sales. Therefore, this provision could generate greater than $667,943 ($10,730,000 x 6.225%) to significantly less than $6,679,425 ($107,300,000 x 6.225%) in new revenue.

Fund	**Low Impact**	**High Impact**
General Revenue	$643,800	$6,679,425
Park, Soil & Water	$10,730	$107,300
Conservation Commission	$13,413	$134,125
Total TSR	$667,943	$6,679,425

DOR notes that sales tax is remitted one month behind collection and therefore if this proposal is adopted, the department can expect 5 months collection in FY 2027. This would result in an impact per fiscal year.

Fund	**FY 2027**	**FY 2028+**
General Revenue	$268,250 - $2,682,500	$643,800 - $6,438,000
Park, Soil & Water	$5,589 - $55,885	$10,730 - $107,300
Conservation Commission	$4,471 - $44,708	$13,413 - $134,125

This would result in DOR needing to add another taxable item to its computer systems ($7,327), changes to its forms and website ($2,200).

Section 27(c) - Tax Reform Fund

Officials from the **Office of Administration - Budget and Planning (B&P)** note this section creates the “Tax Reform Fund” within the state treasury. Beginning FY28, if the amount of net GR collections is $1 million or more than the “anticipated GR expenditures” then the excess amount of collections shall be deposited into the new “Tax Reform Fund.” The general assembly may also appropriate additional monies to the fund.

This proposal specifies that once the new fund has maintained a balance of $120 million and net GR collections exceed “anticipated general fund expenditures” by at least $1 million, then the individual income tax rate shall be reduced by at least 0.1%. For every $60 million over the $120 million minimum balance, the individual income tax rate shall be reduced by an additional 0.05%. Multiple reductions may occur in any given year. Reductions to the individual income tax rate(s) shall continue until the tax is eliminated. B&P notes that this will eventually result in a loss of approximately 64% GR, or $8,515,185,571 as of FY24.

Once the individual income tax has been eliminated, the general assembly shall utilize the "Tax Reform Fund" to phase-out the corporate income tax. B&P notes that this proposal does not specify how the corporate income shall be phased out. B&P notes that this will eventually result in an additional loss of approximately 7% GR, or $893,012,937 as of FY24.

Monies in the "Tax Reform Fund" may be used to supplement the budget if GR collections decline in a year following a reduction to the individual income tax. Monies may be appropriated from the fund equal to either the actual budget shortfall or $60 million per each 0.05% reduction that occurred to the individual income tax the previous year.

B&P notes the following issues with the proposed language:

- The term "anticipated GR expenditures" is undefined. It is unclear whether this refers to the Governor recommended budget or the TAFP budget. In addition, it is unclear whether supplemental expenditures are included.
- The tax reform fund must "reach and maintain" a balance of $120 million before triggering rate reductions. However, it is unclear how long the fund must "maintain" the $120 million balance.
- Section 20(a)2 indicates that monies in the fund may be used to balance the budget, even after both individual and corporate income taxes have been eliminated. However, section 20(a)3 only allows the funds to be used in a year after a reduction to the individual income tax rate. Therefore, once the individual income tax has been eliminated, monies could continue to be diverted to the new fund, but there would be no allowable way to spend the fund balance.

Officials from the **Department of Revenue (DOR)** note this proposal creates a Tax Reform Fund (Fund) which is to be used to justify individual income tax rate reductions in the future. This proposal appears to want to eliminate the individual income tax and the corporate tax. After that this new Fund is to be used to help cover any shortfalls in the state budget.

Starting July 1, 2027 (FY 2028) if the amount of net general revenue collected by the state exceeds the anticipated general fund revenue expenditures for a fiscal year by more than $1 million, each fiscal year there is a surplus of at least $1 million, then all revenue over the $1 million should be deposited into the Tax Reform Fund.

Per this proposal, if the transfers were made and the balance in the Fund reaches and maintains $120 million, the General Assembly shall authorize an individual income tax decrease of at least one-tenth of one percent. This proposal, however, does not define or clarify how long the Fund must "reach and maintain" this balance to trigger the reduction. Additionally, the proposal states that if the Fund balance exceeds $120 million the General Assembly can decrease the individual income tax rate another one-twentieth of one percent for every additional $60 million over $120 million.

DOR notes any fiscal impact from a reduction in the individual income tax would require implementing language and any fiscal impact would be calculated in the implementing language's fiscal note.

The current individual income tax rate is 4.7% for tax year 2025 and is scheduled to continue to decrease until it reaches 4.5% per SB 3. This proposal appears to want to reduce the individual income tax rate and eventually the corporate tax rate over a number of years until both have been eliminated. This proposal says that once the individual income tax is reduced to zero then the general assembly should gradually reduce and eliminate the corporate tax rate.

DOR has not seen drafted language at the time of completing this fiscal note that would reduce the corporate income tax rate. Should such language be brought forward, then it should be noted that per Section 148.720 whenever there is a reduction in the corporate tax rate there shall be a proportional decrease in the financial institutions tax as well.

DOR notes that creating a new state fund that will accept transfers will not fiscally impact DOR. Transferring $120 million to the Fund that would or could have been spent on other specific purposes will not have a fiscal impact on DOR. Limiting how much can be budgeted to each agency may impact DOR in the future if the department is to receive less funding than it does now. That amount is $0 (none taken away) to Unknown but could exceed $250,000.

Oversight notes this proposal will create a cap on expenditures unrelated to revenues; thereby potentially creating surplus funds. Oversight notes it is unknown how much surplus would be generated. Surplus funds in excess of $1 million are to be transferred to the Tax Reform Fund.

Oversight notes this provision allows for the eventual elimination of individual income tax and corporate income tax once the rates reach 0%. Oversight notes total revenues for individual income tax for FY 2024 total $9,048,940,276 and the revenues for corporate income tax for FY 2024 total $1,050,710,284. However, Oversight assumes the reduction and elimination of the individual and corporate tax would require implementing language and any fiscal impact would be calculated in the implementing language's fiscal note.

Responses regarding the proposed legislation as a whole

Officials from **Office of the Secretary of State** 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 $8 million based on the cost of the 2022 primary and general election reimbursements.

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. Funding for this item is adjusted each year depending upon the election cycle. A new decision item is requested in odd numbered fiscal years and the amount requested is dependent upon the estimated number of ballot measures that will be approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2014, the General Assembly changed the appropriation so that it was no longer an estimated appropriation.

For the FY26 petitions cycle, the SOS estimates publication costs at $60,000 per page. This amount is subject to change based on number of petitions received, length of those petitions and rates charged by newspaper publishers.

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, the SOS reserves the right to request funding to meet the cost of the 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 2026. 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 general election is in November 2026 (FY 2027). It is assumed the subject within this proposal could be on this ballot; however, it could also be on a special election called for by the Governor (a different date). Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2026.

Officials from the **Department of Natural Resources** and the **Missouri Department of Agriculture** each defer to the Office of Administration for the potential fiscal impact of this proposal.

Officials from the **Department of Corrections** defers to the Office of Administration Division of Budget and Planning for a statewide revenue reduction estimate.

Officials from the **Office of Administration** and the **Missouri Department of Conservation** each defer to the Office of Administration - Budget and Planning for the potential fiscal impact of this proposal.

Officials from the **Department of Public Safety - Highway Patrol** defer to the Department of Revenue for the potential fiscal impact of this proposal.

Officials from the **Department of Social Services** defer to the Office of Administration - Budget and Planning for the potential fiscal impact of this proposal.

Officials from the **Department of Labor and Industrial Relations** note the proposed legislation proposes a reduction in various taxes. The department defers to the Office of Administration Division of Budget and Planning for a statewide revenue reduction estimate. As the department cannot predict how any remaining post-reduction funds will be appropriated, the department can only say this legislation may impact the department's ability to carry out its functions.

In response to a similar proposal this year (SJR 32), officials from the **Missouri Lottery** assume these proposals have an unknown fiscal impact on Lottery. The proposals place limitations on the total amount of moneys available for appropriation each fiscal year. Lottery's prize appropriation and vendor payment appropriations are directly correlated with Lottery ticket sales. If Lottery ticket sales increase greatly from one fiscal year to the next, a limitation on the prize appropriation will result in the Lottery's inability to pay player prizes and a limitation on its vendor payment appropriations will result in the Lottery's inability to pay its vendors for Lottery games. If Lottery is unable to pay prizes and pay its vendors, Lottery sales may be negatively impacted resulting in a negative impact on proceeds to education.

Officials from the **Department of Higher Education and Workforce Development** defer to the Office of Administration - Budget and Planning for the potential fiscal impact of this proposal.

Officials from the **Attorney General's Office**, **Office of Administration - Administrative Hearing Commission**, **Department of Commerce and Insurance**, **Department of Public Safety - Capitol Police**, **Department of Public Safety - Fire Safety**, **Department of Public Safety - Director's Office**, **Department of Public Safety - Gaming Commission**, **Department of Public Safety - Veterans Commission**, **Department of Public Safety - State Emergency Management Agency**, **Office of the Governor**, **Missouri Ethics Commission**, **Missouri Department of Transportation**, **MODOT & Patrol Employees' Retirement System**, **Petroleum Storage Tank Insurance Fund**, **Office of the State Public Defender**, **University of Missouri System**, and the **Oversight Division** each assume the proposal will have no fiscal impact on their respective organizations.

In response to a similar proposal this year (SJR 32), officials from the **City of Kansas City** assume the proposal will have no fiscal impact on their organization.

Oversight assumes some local political subdivisions may experience a loss of state funds if funds are subject to an appropriation limit. (For instance, school districts may experience a loss of funds if foundation formula payments are subject to a limit on appropriations.)

Oversight received a limited number of responses from local political subdivisions related to the fiscal impact of this proposal. Oversight has presented this fiscal note on the best current information available. Upon the receipt of additional responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

FISCAL IMPACT – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
GENERAL REVENUE			
Transfer Out - SOS - reimbursement of local election authority election costs **if** a special election is called by the Governor	$0 or (More than $8,000,000)	$0	$0
Potential Cost Avoidance - Section 20.2 - Limit on appropriation **if** approved by voters (dependent upon population change) - p. (7)	$0	$0 or Unknown	$0 or Unknown
Potential Revenue Reduction - Section 26.1 - Reduction of state sales tax rate **if** approved by voters - pp. (8-9)	$0	$0 or ($119,403,911)	$0 or ($238,807,822)
Potential Revenue Gain - Section 26.2 - Sales tax on lobbying services **if** approved by voters - pp. (10-13)	$0	0 or could exceed $268,250	0 or could exceed $643,800
Potential Transfer Out - Section 27 - To Tax Reform Fund **if** approved by voters- p. (15)	$0	$0	$0 or (Unknown)
Potential Cost - DOR - Form and computer changes	($19,054)	$0	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 or More than ($8,019,054)**	**$0 to Unknown or Less than ($119,135,661)**	**$0 to Unknown or Greater than ($238,164,022)**
TAX REFORM FUND			
Potential Transfer In - Section 27 - from general revenue - p. (15)	$0	$0	$0 or Unknown

FISCAL IMPACT – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
ESTIMATED NET EFFECT ON TAX REFORM FUND	**$0**	**$0**	**$0 or Unknown**
OTHER STATE FUNDS			
Potential Cost Avoidance - Section 20.2 - Limit on appropriation **if** approved by voters - p. (7)	$0	$0 or Unknown	$0 or Unknown
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	**$0**	**$0 or Unknown**	**$0 or Unknown**
CONSERVATION COMMISSION FUND			
Potential Cost Avoidance - Section 20.2 - Limit on appropriation **if** approved by voters - p. (7)	$0	$0 or Unknown	$0 or Unknown
Potential Revenue Gain - Section 26.2 - Sales tax on lobbying services **if** approved by voters - pp. (10-13)	$0	$0 or could exceed $4,471	$0 or could exceed $13,413
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	**$0**	**$0 or could exceed $4,471**	**$0 or could exceed $13,413**
PARKS AND SOILS STATE SALES TAX FUNDS			
Potential Cost Avoidance - Section 20.2 - Limit on appropriation **if** approved by voters - p. (7)	$0	$0 or Unknown	$0 or Unknown
Potential Revenue Gain - Section 26.2 - Sales tax on lobbying services **if** approved by voters - pp. (10-13)	$0	$0 or could exceed $5,589	$0 or could exceed $10,730

FISCAL IMPACT – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUNDS	**$0**	**$0 or could exceed $5,589**	**$0 or could exceed $10,730**
STATE ROAD BOND FUND			
Potential Cost Avoidance - Section 20.2 - Limit on appropriation **if** approved by voters - p. (7)	$0	$0 or Unknown	$0 or Unknown
Potential Revenue Reduction - Section 26.1 - Reduction of state sales tax rate **if** approved by voters - pp. (8-9)	$0	$0 or ($7,694,555)	$0 or ($15,389,111)
ESTIMATED NET EFFECT ON STATE ROAD BOND FUND	**$0**	**$0 or less than ($7,694,555)**	**$0 or less than ($15,389,111)**
STATE ROAD FUND			
Potential Cost Avoidance - Section 20.2 - Limit on appropriation **if** approved by voters - p. (7)	$0	$0 or Unknown	$0 or Unknown
Potential Revenue Reduction - Section 26.1 - Reduction of state sales tax rate **if** approved by voters - pp. (8-9)	$0	$0 or less than ($5,617,025)	$0 or less than ($11,234,051)
ESTIMATED NET EFFECT ON STATE ROAD FUND	**$0**	**$0 or less than ($5,617,025)**	**$0 or less than ($11,234,051)**
STATE TRANSPORTATION FUND			
Potential Cost Avoidance - Section 20.2 - Limit on appropriation **if** approved by voters - p. (7)	$0	$0 or Unknown	$0 or Unknown

FISCAL IMPACT – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
Potential Revenue Reduction - Section 26.1 - Reduction of state sales tax rate **if** approved by voters - pp. (8-9))	$0	$0 or less than ($153,891)	$0 or less than ($307,782)
ESTIMATED NET EFFECT ON STATE TRANSPORTATION FUND	**$0**	**$0 or less than ($153,891)**	**$0 or less than ($307,782)**
FEDERAL FUNDS			
Potential Cost Avoidance - Section 20.2 - Limit on appropriation **if** approved by voters - p. (7)	$0	$0 or Unknown	$0 or Unknown
Loss – reduction in state share of federal funds **if** funds are not appropriated	$0	$0 or (Unknown)	$0 or (Unknown)
ESTIMATED NET EFFECT ON FEDERAL FUNDS	**$0**	**$0**	**$0**

FISCAL IMPACT – Local Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
LOCAL POLITICAL SUBDIVISIONS			
Transfer In - Local Election Authorities - reimbursement of election costs by the State for a special election	$0 or More than $8,000,000	$0	$0
Costs - Local Election Authorities - cost of a special election **if** called for by the Governor	$0 or (More than $8,000,000)	$0	$0
Potential Revenue Reduction - Section 26.1 - FLOYD - Reduction of sales tax rate **if** approved by voters - pp. (8-9)	$0	$0 or ($1,923,639)	$0 or ($3,847,278)

FISCAL IMPACT – Local Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
Potential Revenue Reduction - Section 20.2 - Limit on appropriation **if** approved by voters - p. (18)	$0	$0 or (Unknown)	$0 or (Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**$0**	**$0 or could exceed ($1,923,639)**	**$0 or could exceed ($3,847,278)**

FISCAL IMPACT – Small Business

Small businesses' taxation may be impacted by this proposal (pending voter approval).

FISCAL DESCRIPTION

This constitutional amendment, if approved by the voters, modifies provisions relating to taxation.

STATE SPENDING
This constitutional amendment, if approved by the voters, provides that the General Assembly shall have a spending limit equal to the previous fiscal year's appropriations plus the percentage growth in population, provided that the population grew by more than one percent from the previous calendar year. If the population grew by more than zero but less than one percent, the spending limit shall be equal to the previous fiscal year's appropriations plus one percent of such amount. If the population decreased from the previous calendar year, the spending limit shall be equal to the previous year's appropriations minus the percentage decline in population.

Total state appropriations may exceed the spending limits only under certain conditions, as described in the amendment.

The amendment establishes the "Tax Reform Fund" in the state treasury. For all fiscal years beginning on or after July 1, 2027, if net general revenue collections exceed anticipated expenditures by more than $1 million, such excess revenues shall be deposited into the fund. In any fiscal year in which a deposit is made into the fund and the balance of the fund is equal to or greater than $120 million, the General Assembly shall reduce the top rate of income tax by at least 0.1%, with an additional 0.05% reduction for each $60 million in excess of the $120 million minimum balance. Such reductions shall continue until the income tax is eliminated.

Upon the elimination of the income tax, the General Assembly shall use the Tax Reform Fund to gradually reduce and eliminate the corporate income tax.

Upon elimination of the corporate income tax, the Tax Reform Fund shall be used to supplement budget shortfalls, as described in the amendment. (Sections 20 and 20(a))

SALES TAXES
This constitutional amendment, if approved by the voters, modifies provisions relating to taxation.

STATE SPENDING
This constitutional amendment, if approved by the voters, provides that the General Assembly shall have a spending limit equal to the previous fiscal year's appropriations plus the percentage growth in population, provided that the population grew by more than one percent from the previous calendar year. If the population grew by more than zero but less than one percent, the spending limit shall be equal to the previous fiscal year's appropriations plus one percent of such amount. If the population decreased from the previous calendar year, the spending limit shall be equal to the previous year's appropriations minus the percentage decline in population.

Total state appropriations may exceed the spending limits only under certain conditions, as described in the amendment.

The amendment establishes the "Tax Reform Fund" in the state treasury. For all fiscal years beginning on or after July 1, 2027, if net general revenue collections exceed anticipated expenditures by more than $1 million, such excess revenues shall be deposited into the fund. In any fiscal year in which a deposit is made into the fund and the balance of the fund is equal to or greater than $120 million, the General Assembly shall reduce the top rate of income tax by at least 0.1%, with an additional 0.05% reduction for each $60 million in excess of the $120 million minimum balance. Such reductions shall continue until the income tax is eliminated.

Upon the elimination of the income tax, the General Assembly shall use the Tax Reform Fund to gradually reduce and eliminate the corporate income tax.

Upon elimination of the corporate income tax, the Tax Reform Fund shall be used to supplement budget shortfalls, as described in the amendment. (Sections 20 and 20(a))

SALES TAXES
Current law imposes a statewide sales tax at a statutory rate of 4%, with an additional 0.225% rate that is constitutionally authorized, for a total statewide sales tax rate of 4.225%. This constitutional amendment, if approved by the voters, provides that the General Assembly shall not impose a statutory sales tax rate in excess of 3.775%, for a total statewide rate of 4%.

This amendment also requires the General Assembly to impose a statewide sales tax on lobbying services at a rate of 6%.

Finally, this amendment repeals Article X, Section 26 of the constitution, which prohibits new sales taxes on transactions not taxed as of January 1, 2015. (Section 26)

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
Department of Health and Senior Services
Department of Economic Development
Department of Mental Health
Department of Natural Resources
Missouri Department of Agriculture
Department of Corrections
Department of Public Safety:
- Director's Office
- Highway Patrol
- Veterans Commission
- Capitol Police
- Fire Safety
- Gaming Commission
- State Emergency Management Agency

Office of Administration
Missouri Department of Conservation
Department of Social Services
Department of Labor and Industrial Relations
Missouri Lottery
Department of Higher Education and Workforce Development
Office of Administration - Administrative Hearing Commission
Department of Commerce and Insurance
Office of the Governor
Missouri Ethics Commission
Missouri Department of Transportation
MODOT & Patrol Employees' Retirement System
Office of the State Public Defender
University of Missouri System
City of Kansas City

Julie Morff
Director
January 9, 2025

Jessica Harris
Assistant Director
January 9, 2025

KLP:LR:OD