

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1399S.01I
 Bill No.: SB 228
 Subject: Taxation and Revenue - Income
 Type: Original
 Date: February 11, 2025

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY Unknown)
General Revenue*	(\$170,587,806)	(\$569,458,359)	(\$507,340,756 to \$571,680,542)	(\$290,336,708 to \$8,423,526,973)
Total Estimated Net Effect on General Revenue	(\$170,587,806)	(\$569,458,359)	(\$507,340,756 to \$571,680,542)	(\$290,336,708 to \$8,423,526,973)

***Oversight** notes, currently, the top 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 changes the individual income tax rate to a flat 4% rate in tax year 2026. Additional individual income tax rate reductions could occur beyond FY 2028 until the individual income tax rate reaches 0% (pending voter approval AND revenue growth triggers being met). 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.

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

Numbers within parentheses: () indicate costs or losses.

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY Unknown)
Total Estimated Net Effect on FTE	0	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	Fully Implemented (FY Unknown)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Sections 143.011 - 143.021 - Individual Income Tax Rate Changes

Officials from the **Department of Revenue (DOR)** note this proposal implements immediate changes to the individual income tax rate and creates optional reductions to the individual income tax rate should a constitutional amendment pass in the future.

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%).

Required Reductions

FLAT Tax Rate Reduction

Starting January 1, 2026, this proposal would eliminate the current individual income tax brackets with its graduated tax rates and replace it with a flat 4% tax on all income over \$1,000 per Section 143.021.3.

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 4.95% 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 bracket and future rate would be:

Table 1: Proposed Tax Rates

Tax Year	Current	Proposed Rate
2025*	4.7%	4.7% - Current Law (1/2025 - 8/2025) 4.95% - Proposal (9/2025 - 12/2025)
2026	4.7%	4.0%
2027	4.7%	4.0%
2028	4.6%	4.0%
2029	4.5%	4.0%
2030	4.5%	4.0%

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

Additionally, this proposal removes the individual and corporate federal income tax deduction in Section 143.171. DOR will account for the corporate federal income tax cut separately but will include in the rate change calculations the individual federal income tax deduction repeal.

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 of the change to a flat tax from the current graduated brackets and the individual federal income tax deduction repeal.

Required Flat Tax by Tax Year

Tax Year	Impact to GR
2025	\$108,838,557
2026	(\$665,244,206)
2027	(\$655,417,424)
2028	(\$521,088,687)
2029	(\$381,995,306)

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 DOR 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 DOR'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:

Required Flat Tax by Fiscal Year

Fiscal Year	Loss to GR
2026	(\$170,563,988)
2027	(\$661,116,957)
2028	(\$598,999,354)
2029	(\$462,669,467)
2030	(\$381,995,306)

Eliminate the Federal Income Tax Deduction for Corporations

Starting January 1, 2026, this proposal in Section 143.171, will eliminate the federal income tax deduction for corporations and individuals. DOR removed the individual deduction when calculating the new rate above. DOR used their internal confidential database to run the amount of revenue gained from corporations which is estimated at \$91,658,598 annually.

Summary of Required Reductions

These mandatory changes to the individual income tax and corporate tax will result in the following impact:

Fiscal Year	Individual Income Tax	Corporate - Fed Tax Deduction	Total GR Impact
2026	(\$170,563,988)	\$0	(\$170,563,988)
2027	(\$661,116,957)	\$91,658,598	(\$569,458,360)
2028	(\$598,999,354)	\$91,658,598	(\$507,340,757)
2029	(\$462,669,467)	\$91,658,598	(\$371,010,869)
2030	(\$381,995,306)	\$91,658,598	(\$290,336,708)

DOR notes that this proposal’s flat tax and federal income tax rate changes will require the MO-1040 (individual return) and the MO 1120 (corporate return) to be changed annually. The tax year 2025 changes will require changing the forms twice in that year. It is estimated to cost \$19,054 annually for the computer programming (\$14,654), the forms and website changes (\$4,400). Tax year 2025 will cost \$38,108 ($\$19,054 * 2$) for the extra set of changes.

Additional Reductions based on Constitutional Amendment

This proposal also has language allowing for additional reductions of the individual income tax rates. If a constitutional amendment passes authorizing the creation of a Tax Reform Fund, then this proposal beginning with tax year 2027, would allow the 4% flat tax rate to decrease further. This proposal notes the constitutional amendment would go to the voters on November 3, 2026, and would not become certified until December 3, 2026, if adopted. DOR assumes it would go into effect on January 1, 2027.

It should be noted that in section 143.011.3(2) this proposal requires DOR to adjust the appropriate tax rates by rule and to post on the department’s website. DOR just posts the current rates on the department’s website. Should it be determined that DOR is required to adjust the rates by the rule process, it will delay the implementation of each of these decreases by one year. The state’s current rulemaking process takes a minimum of six months for a rule to be effective.

This proposal says these additional rate reductions will occur only if the amount of net general revenue collected in the previous fiscal year meets the trigger threshold of \$1 million and the tax reform fund has a balance of \$120 million. Once this happens, a one tenth of one percent reduction can take place for the balance of the fund being \$120 million. And for every additional \$60 million in the fund another one twentieth reduction can occur.

DOR for fiscal note purposes will assume only 1 reduction would occur at a time. The optional reductions would lead to these potential rates.

Table 5: Proposed Tax Rates

Tax Year	Current Law	Proposed Rate	Tax Year	Current Law	Proposed Rate
2025*	4.7%	4.7% - Current Law (1/2025 - 8/2025) 4.95% - Proposal (9/2025 - 12/2025)	TY 20x17	4.5%	2.0%
2026	4.7%	4.0%	TY 20x18	4.5%	1.9%
2027	4.7%	4.0%	TY 20x19	4.5%	1.8%
2028	4.6%	3.9%	TY 20x20	4.5%	1.7%
2029	4.5%	3.8%	TY 20x21	4.5%	1.6%
2030	4.5%	3.7%	TY 20x22	4.5%	1.5%
TY 20x1	4.5%	3.6%	TY 20x23	4.5%	1.4%
TY 20x2	4.5%	3.5%	TY 20x24	4.5%	1.3%
TY 20x3	4.5%	3.4%	TY 20x25	4.5%	1.2%
TY 20x4	4.5%	3.3%	TY 20x26	4.5%	1.1%
TY 20x5	4.5%	3.2%	TY 20x27	4.5%	1.0%
TY 20x6	4.5%	3.1%	TY 20x28	4.5%	0.9%
TY 20x7	4.5%	3.0%	TY 20x29	4.5%	0.8%
TY 20x8	4.5%	2.9%	TY 20x30	4.5%	0.7%
TY 20x9	4.5%	2.8%	TY 20x31	4.5%	0.6%
TY 20x10	4.5%	2.7%	TY 20x32	4.5%	0.5%
TY 20x11	4.5%	2.6%	TY 20x33	4.5%	0.4%
TY 20x12	4.5%	2.5%	TY 20x34	4.5%	0.3%
TY 20x13	4.5%	2.4%	TY 20x35	4.5%	0.2%
TY 20x14	4.5%	2.3%	TY 20x36	4.5%	0.1%

TY 20x15	4.5%	2.2%
TY 20x16	4.5%	2.1%

TY 20x37	4.5%	0.0%
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*The repeal of 143.011.3 would become effective 8/28/2025. While the new language would not begin until 1/1/2026.

*If voter approved in November 2026, this proposal could begin reducing rates as early as tax year 2028.

*For simplicity, B&P will show only one 0.1% reduction per year. Actual implementation could be much faster (or slower) than what is shown above.

The Department used its internal Income Tax Model that contains confidential taxpayer data to calculate the fiscal impact of these additional triggered changes. The new impact would be:

Tax Year	Amount		Tax Year	Amount
2025	\$108,838,578		TY 20x17	(\$3,257,459,906)
2026	(\$665,244,206)		TY 20x18	(\$3,397,707,522)
2027	(\$655,417,424)		TY 20x19	(\$3,537,562,690)
2028	(\$674,278,653)		TY 20x20	(\$3,677,195,861)
2029	(\$688,363,859)		TY 20x21	(\$3,818,343,175)
2030	(\$829,480,489)		TY 20x22	(\$3,956,530,463)
TY 20x1	(\$975,449,749)		TY 20x23	(\$4,098,937,068)
TY 20x2	(\$1,118,403,020)		TY 20x24	(\$4,236,096,213)
TY 20x3	(\$1,263,364,625)		TY 20x25	(\$4,372,517,918)
TY 20x4	(\$1,405,438,424)		TY 20x26	(\$4,515,590,066)
TY 20x5	(\$1,549,850,452)		TY 20x27	(\$4,653,072,710)
TY 20x6	(\$1,693,795,463)		TY 20x28	(\$4,789,987,909)
TY 20x7	(\$1,836,967,222)		TY 20x29	(\$4,926,083,705)
TY 20x8	(\$1,977,369,648)		TY 20x30	(\$5,066,309,969)
TY 20x9	(\$2,122,382,506)		TY 20x31	(\$5,200,910,625)
TY 20x10	(\$2,264,249,646)		TY 20x32	(\$5,337,098,499)
TY 20x11	(\$2,405,927,105)		TY 20x33	(\$5,476,810,371)
TY 20x12	(\$2,549,514,840)		TY 20x34	(\$5,608,640,119)
TY 20x13	(\$2,692,632,178)		TY 20x35	(\$5,741,579,063)
TY 20x14	(\$2,832,572,128)		TY 20x36	(\$5,875,243,067)
TY 20x15	(\$2,974,766,033)		TY 20x37	(\$8,515,185,571)
TY 20x16	(\$3,118,710,572)			

Using a split to convert tax years would result in a fiscal year impact:

Fiscal Year	Loss to GR	Fiscal Year	Loss to GR
2026	(\$170,563,988)	TY 20x18	(\$3,316,363,905)
2027	(\$661,116,957)	TY 20x19	(\$3,456,446,693)
2028	(\$663,339,140)	TY 20x20	(\$3,596,208,622)
2029	(\$680,194,439)	TY 20x21	(\$3,736,477,733)
2030	(\$747,632,843)	TY 20x22	(\$3,876,381,836)
TY 20x1	(\$890,787,578)	TY 20x23	(\$4,016,341,237)
TY 20x2	(\$1,035,490,123)	TY 20x24	(\$4,156,543,909)
TY 20x3	(\$1,179,286,894)	TY 20x25	(\$4,293,393,329)
TY 20x4	(\$1,323,035,621)	TY 20x26	(\$4,432,608,221)
TY 20x5	(\$1,466,091,476)	TY 20x27	(\$4,573,332,777)
TY 20x6	(\$1,610,307,357)	TY 20x28	(\$4,710,577,093)
TY 20x7	(\$1,753,927,602)	TY 20x29	(\$4,847,148,143)
TY 20x8	(\$1,895,936,241)	TY 20x30	(\$4,984,978,736)
TY 20x9	(\$2,038,275,049)	TY 20x31	(\$5,122,842,245)
TY 20x10	(\$2,181,966,705)	TY 20x32	(\$5,258,109,532)
TY 20x11	(\$2,323,754,179)	TY 20x33	(\$5,395,777,486)
TY 20x12	(\$2,466,233,954)	TY 20x34	(\$5,532,178,866)
TY 20x13	(\$2,609,624,122)	TY 20x35	(\$5,664,474,476)
TY 20x14	(\$2,751,406,957)	TY 20x36	(\$5,797,717,944)
TY 20x15	(\$2,892,293,568)	TY 20x37	(\$6,984,018,919)
TY 20x16	(\$3,035,222,740)	TY 20x38	(\$8,515,185,571)
TY 20x17	(\$3,176,985,292)		

SUMMARY

If the constitutional amendment is adopted, this proposal will result in the following loss to the state of the required flat tax amount up to the optional rate reduction language.

Fiscal Year	Individual Income	Corporate Fed Tax Deduction	Total GR Impact	Fiscal Year	Individual Income	Corporate Fed Tax Deduction	Total GR Impact
2026	(\$170,563,988)	\$0	(\$170,563,988)	TY 20x18	(\$3,316,363,905)	\$91,658,598	(\$3,224,705,307)
2027	(\$661,116,957)	\$91,658,598	(\$569,458,359)	TY 20x19	(\$3,456,446,693)	\$91,658,598	(\$3,364,788,095)
2028	(\$663,339,140)	\$91,658,598	(\$571,680,542)	TY 20x20	(\$3,596,208,622)	\$91,658,598	(\$3,504,550,024)
2029	(\$680,194,439)	\$91,658,598	(\$588,535,841)	TY 20x21	(\$3,736,477,733)	\$91,658,598	(\$3,644,819,135)
2030	(\$747,632,843)	\$91,658,598	(\$655,974,245)	TY 20x22	(\$3,876,381,836)	\$91,658,598	(\$3,784,723,238)

TY 20x1	(\$890,787,578)	\$91,658,598	(\$799,128,980)	TY 20x23	(\$4,016,341,237)	\$91,658,598	(\$3,924,682,639)
TY 20x2	(\$1,035,490,123)	\$91,658,598	(\$943,831,525)	TY 20x24	(\$4,156,543,909)	\$91,658,598	(\$4,064,885,311)
TY 20x3	(\$1,179,286,894)	\$91,658,598	(\$1,087,628,296)	TY 20x25	(\$4,293,393,329)	\$91,658,598	(\$4,201,734,731)
TY 20x4	(\$1,323,035,621)	\$91,658,598	(\$1,231,377,023)	TY 20x26	(\$4,432,608,221)	\$91,658,598	(\$4,340,949,623)
TY 20x5	(\$1,466,091,476)	\$91,658,598	(\$1,374,432,878)	TY 20x27	(\$4,573,332,777)	\$91,658,598	(\$4,481,674,179)
TY 20x6	(\$1,610,307,357)	\$91,658,598	(\$1,518,648,759)	TY 20x28	(\$4,710,577,093)	\$91,658,598	(\$4,618,918,495)
TY 20x7	(\$1,753,927,602)	\$91,658,598	(\$1,662,269,004)	TY 20x29	(\$4,847,148,143)	\$91,658,598	(\$4,755,489,545)
TY 20x8	(\$1,895,936,241)	\$91,658,598	(\$1,804,277,643)	TY 20x30	(\$4,984,978,736)	\$91,658,598	(\$4,893,320,138)
TY 20x9	(\$2,038,275,049)	\$91,658,598	(\$1,946,616,451)	TY 20x31	(\$5,122,842,245)	\$91,658,598	(\$5,031,183,647)
TY 20x10	(\$2,181,966,705)	\$91,658,598	(\$2,090,308,107)	TY 20x32	(\$5,258,109,532)	\$91,658,598	(\$5,166,450,934)
TY 20x11	(\$2,323,754,179)	\$91,658,598	(\$2,232,095,581)	TY 20x33	(\$5,395,777,486)	\$91,658,598	(\$5,304,118,888)
TY 20x12	(\$2,466,233,954)	\$91,658,598	(\$2,374,575,356)	TY 20x34	(\$5,532,178,866)	\$91,658,598	(\$5,440,520,268)
TY 20x13	(\$2,609,624,122)	\$91,658,598	(\$2,517,965,524)	TY 20x35	(\$5,664,474,476)	\$91,658,598	(\$5,572,815,878)
TY 20x14	(\$2,751,406,957)	\$91,658,598	(\$2,659,748,359)	TY 20x36	(\$5,797,717,944)	\$91,658,598	(\$5,706,059,346)
TY 20x15	(\$2,892,293,568)	\$91,658,598	(\$2,800,634,970)	TY 20x37	(\$6,984,018,919)	\$91,658,598	(\$6,892,360,321)
TY 20x16	(\$3,035,222,740)	\$91,658,598	(\$2,943,564,142)	TY 20x38	(\$8,515,185,571)	\$91,658,598	(\$8,423,526,973)
TY 20x17	(\$3,176,985,292)	\$91,658,598	(\$3,085,326,694)				

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal makes the following changes to individual and corporate income tax:

Tax year 2025

- Increases the top individual income tax rate from 4.7% to 4.95%, for income earned between August 28, 2025 through December 31, 2025.

Tax year 2026+

- Creates a flat individual income tax with a rate of 4.0%.
- Levies the individual income tax on all taxable income over \$1,000.
- Eliminates the federal income tax deduction for individual income taxes.
- Eliminates the federal income tax deduction for corporate income taxes.

Tax Year 2027+

- Contains additional contingent individual income tax rate reductions, subject to voter approval of a tax reform fund.

For the purpose of this fiscal note, B&P will separate the potential impact as mandatory (regardless of any constitutional amendment) and contingent (with the constitutional amendment).

Mandatory Changes – Individual and Corporate Income Taxes

Sections 143.011, 143.021, and 143.171- Individual Income Tax Reduction

Section 143.011 would create a flat tax of 4.0%, starting with tax year 2026. B&P notes that section 143.011.3 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 4.95%. 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.

Section 143.021 would prohibit the individual income tax on taxable income up to \$1,000. B&P notes that currently (tax year 2025), there is no individual income tax levied on incomes below \$1,313. B&P further notes that under current law, this amount is adjusted annually for inflation. This proposal would reset the exemption at \$1,000 and stop the annual inflation adjustment.

Section 143.171 would end the federal income tax deduction for both corporate and individual income tax, starting with tax year 2026. B&P will only include the impact for individual income under this section, please see the discussion for corporations for the estimated impact from eliminating the corporation federal income tax deduction.

Impact

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) 4.95% - Proposal (9/2025 - 12/2025)

2026	4.7%	4.0%
2027	4.7%	4.0%
2028	4.6%	4.0%
2029	4.5%	4.0%
2030	4.5%	4.0%

*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 \$109,121,164 for tax year 2025. Once SB 3 (2022) would have been fully implemented, this proposal could reduce GR by \$388,616,096 annually. Table 2 shows the estimated impact by tax year.

Table 2: Individual Income
 Estimated Impact by Tax
 Year

Tax Year	GR Impact
2025	\$109,121,164
2026	(\$672,532,002)
2027	(\$662,706,846)
2028	(\$528,038,911)
2029	(\$388,616,096)

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 \$173,342,277 in FY26. Once SB 3 (2022) would have been fully implemented, this proposal could reduce GR by \$388,616,096 annually. Table 3 shows the estimated impact from this section by fiscal year.

Table 3: Individual Income
 Estimated Impact by Fiscal
 Year

Fiscal Year	GR Impact
2026	(\$173,342,277)

2027	(\$668,405,437)
2028	(\$606,146,313)
2029	(\$469,481,328)
2030	(\$388,616,096)

Section 143.071 – Corporate Federal Income Tax Deduction

This proposal would end the federal income tax deduction for both corporate and individual income tax, starting with tax year 2026. B&P will only include the impact for corporate income under this section, please see the discussion for individuals for the estimated impact from eliminating the individual federal income tax deduction.

Using tax year 2022 data, the most recent complete year available, B&P notes that corporations claimed \$143.15 billion in federal income taxes paid. B&P further notes that based on the percentage of total taxable income versus Missouri source income, approximately 1.7% of that federal income tax would be apportioned to Missouri. Therefore, B&P estimates that of the \$143.15 billion in federal taxes, approximately \$2.29 billion was related to Missouri source income.

B&P notes that the federal income tax deduction is granted when corporations file their annual tax returns. For the purpose of this fiscal note, B&P will assume that corporations file their annual returns the fiscal year after the end of the calendar year (i.e. annual returns filed during FY27 for tax year 2026).

Therefore, B&P estimates that this provision could increase TSR and GR by \$91,658,598 (\$2,291,464,939 x 4.0%) annually beginning in FY27.

Mandatory – Summary

Based on the above information, B&P estimates that this proposal may reduce TSR and GR by \$173,342,277 in FY26. Once fully implemented, this proposal may reduce TSR and GR by \$296,957,498 annually. Table 4 shows the summary of impacts.

Table 4: Summary Impact - General Revenue

Fiscal Year	Individual Income Tax	Corporate - Fed Tax Deduction	Total GR Impact
2026	(\$173,342,277)	\$0	(\$173,342,277)
2027	(\$668,405,437)	\$91,658,598	(\$576,746,839)
2028	(\$606,146,313)	\$91,658,598	(\$514,487,716)
2029	(\$469,481,328)	\$91,658,598	(\$377,822,731)
2030	(\$388,616,096)	\$91,658,598	(\$296,957,498)

Contingent Changes – Individual Income Tax

B&P notes that all impacts estimated below are in addition to the impacts estimated above under “mandatory”.

Sections 143.011 - Individual Income Tax Reduction

Section 143.011.4 would reduce the tax rate, dependent upon certain thresholds, until the individual income tax is phased-out. Reductions to the tax rate will only occur if a qualifying constitutional amendment is voter approved.

The individual income tax rate will be reduced when net general revenue exceeds “anticipated general fund revenue expenditures” by at least \$1 million and the tax reform fund has a balance of at least \$120 million. The tax rate will be reduced by 0.1% for the \$120 million balance plus 0.05% for every additional \$60 million held in the fund.

B&P notes the following:

- The “tax reform fund” is not established in this proposal. This proposal only requires voter approval to authorize the creation of the fund. It does not require such constitutional amendment to define or lay out any other requirements of such fund. If this fund is voter approved, but never created, B&P assumes that these provisions will not become effective.
- The term “anticipated general revenue fund expenditures” is not defined. It is unclear if this:
 - Is the original budget for a fiscal year or if it should include supplemental funding.
 - Whether it should include spending of fund balance(s) (if any) or only new general revenue monies.
- A reduction is only dependent on the balance of the tax reform fund. It is possible that the balance in the fund could remain at, or above, the \$120 million threshold even when general revenues are declining.
- It is possible that a reduction could occur during recessions if the tax reform balance remains at \$120 million and actual revenues exceed anticipated expenditures, even when actual and anticipated revenues are below the previous fiscal year. This proposal does not require actual general revenue growth to trigger a rate reduction.

For the purpose of this fiscal note, B&P will show each 0.1% reduction to the tax rate individually. However, it is possible that the fund balance could be high enough to trigger additional 0.05% reduction(s) in the same year.

B&P notes that while this proposal indicates that the reductions could begin in tax year 2027, the tax reform fund would not be approved until November 2026 at the earliest. If approved, FY27 would be the first year that could be used to determine whether a reduction should occur. Therefore, the earliest this provision could be triggered is tax year 2028. Table 5 Table 5 shows the estimated individual income tax rates.

Table 5: Proposed Tax Rates

Tax Year	Current Law	Proposed Rate
2025*	4.7%	4.7% - Current Law (1/2025 - 8/2025) 4.95% - Proposal (9/2025 - 12/2025)
2026	4.7%	4.0%
2027	4.7%	4.0%
2028	4.6%	3.9%
2029	4.5%	3.8%
2030	4.5%	3.7%
TY 20x1	4.5%	3.6%
TY 20x2	4.5%	3.5%
TY 20x3	4.5%	3.4%
TY 20x4	4.5%	3.3%
TY 20x5	4.5%	3.2%
TY 20x6	4.5%	3.1%
TY 20x7	4.5%	3.0%
TY 20x8	4.5%	2.9%
TY 20x9	4.5%	2.8%
TY 20x10	4.5%	2.7%
TY 20x11	4.5%	2.6%
TY 20x12	4.5%	2.5%
TY 20x13	4.5%	2.4%
TY 20x14	4.5%	2.3%
TY 20x15	4.5%	2.2%
TY 20x16	4.5%	2.1%

Tax Year	Current Law	Proposed Rate
TY 20x17	4.5%	2.0%
TY 20x18	4.5%	1.9%
TY 20x19	4.5%	1.8%
TY 20x20	4.5%	1.7%
TY 20x21	4.5%	1.6%
TY 20x22	4.5%	1.5%
TY 20x23	4.5%	1.4%
TY 20x24	4.5%	1.3%
TY 20x25	4.5%	1.2%
TY 20x26	4.5%	1.1%
TY 20x27	4.5%	1.0%
TY 20x28	4.5%	0.9%
TY 20x29	4.5%	0.8%
TY 20x30	4.5%	0.7%
TY 20x31	4.5%	0.6%
TY 20x32	4.5%	0.5%
TY 20x33	4.5%	0.4%
TY 20x34	4.5%	0.3%
TY 20x35	4.5%	0.2%
TY 20x36	4.5%	0.1%
TY 20x37	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.

*If voter approved in November 2026, this proposal could begin reducing rates as early as tax year 2028.

*For simplicity, B&P will show only one 0.1% reduction per year. Actual implementation could be much faster (or slower) than what is shown above.

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 decrease GR by \$681,443,223 for tax year 2028, if a 0.1% rate reduction is triggered. Once fully implemented, this proposal could reduce GR by \$8,515,185,571 annually. Table 6 shows the estimated impact by tax year.

Table 6: Individual Income Estimated Impact by Tax Year

Tax Year	GR Impact	Tax Year	GR Impact
2025	\$109,121,164	TY 20x17	(\$3,268,369,008)
2026	(\$672,532,002)	TY 20x18	(\$3,408,762,319)
2027	(\$662,706,846)	TY 20x19	(\$3,548,803,083)
2028	(\$681,443,223)	TY 20x20	(\$3,688,600,977)
2029	(\$695,406,425)	TY 20x21	(\$3,829,890,698)
2030	(\$836,708,715)	TY 20x22	(\$3,968,267,717)
TY 20x1	(\$982,913,961)	TY 20x23	(\$4,110,857,128)
TY 20x2	(\$1,126,130,095)	TY 20x24	(\$4,248,155,633)
TY 20x3	(\$1,271,340,030)	TY 20x25	(\$4,384,712,893)
TY 20x4	(\$1,413,646,008)	TY 20x26	(\$4,527,905,489)
TY 20x5	(\$1,558,274,392)	TY 20x27	(\$4,665,494,128)
TY 20x6	(\$1,702,452,839)	TY 20x28	(\$4,802,502,259)
TY 20x7	(\$1,845,897,880)	TY 20x29	(\$4,938,716,231)
TY 20x8	(\$1,986,503,800)	TY 20x30	(\$5,079,070,310)
TY 20x9	(\$2,131,708,226)	TY 20x31	(\$5,213,809,794)
TY 20x10	(\$2,273,770,589)	TY 20x32	(\$5,350,147,463)
TY 20x11	(\$2,415,658,139)	TY 20x33	(\$5,490,115,354)
TY 20x12	(\$2,559,465,291)	TY 20x34	(\$5,622,181,657)
TY 20x13	(\$2,702,787,652)	TY 20x35	(\$5,755,428,028)
TY 20x14	(\$2,842,906,367)	TY 20x36	(\$5,889,462,790)
TY 20x15	(\$2,985,277,709)	TY 20x37	(\$8,515,185,571)
TY 20x16	(\$3,129,442,367)		

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 \$668,405,437 in FY28, if a 0.1% rate reduction is triggered for tax year 2028. Once SB fully implemented, this proposal could reduce GR by \$8,515,185,571 annually. Table 7 shows the estimated impact from this section by fiscal year.

Table 7: Individual Income Estimated Impact by Fiscal Year

Fiscal Year	GR Impact	Fiscal Year	GR Impact
2026	(\$173,342,277)	FY 20x18	(\$3,327,334,198)
2027	(\$668,405,437)	FY 20x19	(\$3,467,579,440)
2028	(\$670,576,124)	FY 20x20	(\$3,607,518,198)

2029	(\$687,307,768)	FY 20x21	(\$3,747,942,660)
2030	(\$754,753,387)	FY 20x22	(\$3,888,009,046)
FY 20x1	(\$898,114,918)	FY 20x23	(\$4,028,155,270)
FY 20x2	(\$1,043,064,737)	FY 20x24	(\$4,168,522,500)
FY 20x3	(\$1,187,118,268)	FY 20x25	(\$4,305,509,682)
FY 20x4	(\$1,331,108,541)	FY 20x26	(\$4,444,853,783)
FY 20x5	(\$1,474,389,929)	FY 20x27	(\$4,585,692,717)
FY 20x6	(\$1,618,829,340)	FY 20x28	(\$4,723,037,543)
FY 20x7	(\$1,762,699,756)	FY 20x29	(\$4,859,712,128)
FY 20x8	(\$1,904,952,366)	FY 20x30	(\$4,997,664,944)
FY 20x9	(\$2,047,489,659)	FY 20x31	(\$5,135,660,893)
FY 20x10	(\$2,191,374,419)	FY 20x32	(\$5,271,071,615)
FY 20x11	(\$2,333,363,360)	FY 20x33	(\$5,408,933,977)
FY 20x12	(\$2,476,057,143)	FY 20x34	(\$5,545,583,201)
FY 20x13	(\$2,619,660,683)	FY 20x35	(\$5,678,145,133)
FY 20x14	(\$2,761,637,513)	FY 20x36	(\$5,811,722,628)
FY 20x15	(\$2,902,702,331)	FY 20x37	(\$6,992,266,358)
FY 20x16	(\$3,045,826,865)	FY 20x38	(\$8,515,185,571)
FY 20x17	(\$3,187,791,556)		

Contingent – Summary

Adding in the mandatory elimination of the corporate federal tax deduction (B&P notes the individual elimination is already included within the individual income tax estimates), B&P estimates that this proposal could reduce TSR and GR by \$576,746,839 in FY28, if a 0.1% reduction is triggered. Once fully implemented, this proposal could reduce TSR and GR by \$8,423,526,973 annually. Table 8 shows the summary of impacts.

Fiscal Year	Individual Income Tax	Corporate - Fed Tax Deduction	Total GR Impact
2026	(\$173,342,277)	\$0	(\$173,342,277)

2027	(\$668,405,437)	\$91,658,598	(\$576,746,839)
2028	(\$670,576,124)	\$91,658,598	(\$578,917,527)
2029	(\$687,307,768)	\$91,658,598	(\$595,649,170)
2030	(\$754,753,387)	\$91,658,598	(\$663,094,789)
FY 20x1	(\$898,114,918)	\$91,658,598	(\$806,456,321)
FY 20x2	(\$1,043,064,737)	\$91,658,598	(\$951,406,140)
FY 20x3	(\$1,187,118,268)	\$91,658,598	(\$1,095,459,670)
FY 20x4	(\$1,331,108,541)	\$91,658,598	(\$1,239,449,943)
FY 20x5	(\$1,474,389,929)	\$91,658,598	(\$1,382,731,332)
FY 20x6	(\$1,618,829,340)	\$91,658,598	(\$1,527,170,742)
FY 20x7	(\$1,762,699,756)	\$91,658,598	(\$1,671,041,159)
FY 20x8	(\$1,904,952,366)	\$91,658,598	(\$1,813,293,768)
FY 20x9	(\$2,047,489,659)	\$91,658,598	(\$1,955,831,061)
FY 20x10	(\$2,191,374,419)	\$91,658,598	(\$2,099,715,821)
FY 20x11	(\$2,333,363,360)	\$91,658,598	(\$2,241,704,763)
FY 20x12	(\$2,476,057,143)	\$91,658,598	(\$2,384,398,545)
FY 20x13	(\$2,619,660,683)	\$91,658,598	(\$2,528,002,085)
FY 20x14	(\$2,761,637,513)	\$91,658,598	(\$2,669,978,915)
FY 20x15	(\$2,902,702,331)	\$91,658,598	(\$2,811,043,733)
FY 20x16	(\$3,045,826,865)	\$91,658,598	(\$2,954,168,268)
FY 20x17	(\$3,187,791,556)	\$91,658,598	(\$3,096,132,959)
FY 20x18	(\$3,327,334,198)	\$91,658,598	(\$3,235,675,601)
FY 20x19	(\$3,467,579,440)	\$91,658,598	(\$3,375,920,842)
FY 20x20	(\$3,607,518,198)	\$91,658,598	(\$3,515,859,601)
FY 20x21	(\$3,747,942,660)	\$91,658,598	(\$3,656,284,062)
FY 20x22	(\$3,888,009,046)	\$91,658,598	(\$3,796,350,449)
FY 20x23	(\$4,028,155,270)	\$91,658,598	(\$3,936,496,672)
FY 20x24	(\$4,168,522,500)	\$91,658,598	(\$4,076,863,902)
FY 20x25	(\$4,305,509,682)	\$91,658,598	(\$4,213,851,085)
FY 20x26	(\$4,444,853,783)	\$91,658,598	(\$4,353,195,186)
FY 20x27	(\$4,585,692,717)	\$91,658,598	(\$4,494,034,120)
FY 20x28	(\$4,723,037,543)	\$91,658,598	(\$4,631,378,945)
FY 20x29	(\$4,859,712,128)	\$91,658,598	(\$4,768,053,530)
FY 20x30	(\$4,997,664,944)	\$91,658,598	(\$4,906,006,347)
FY 20x31	(\$5,135,660,893)	\$91,658,598	(\$5,044,002,296)
FY 20x32	(\$5,271,071,615)	\$91,658,598	(\$5,179,413,017)

FY 20x33	(\$5,408,933,977)	\$91,658,598	(\$5,317,275,379)
FY 20x34	(\$5,545,583,201)	\$91,658,598	(\$5,453,924,604)
FY 20x35	(\$5,678,145,133)	\$91,658,598	(\$5,586,486,535)
FY 20x36	(\$5,811,722,628)	\$91,658,598	(\$5,720,064,030)
FY 20x37	(\$6,992,266,358)	\$91,658,598	(\$6,900,607,760)
FY 20x38	(\$8,515,185,571)	\$91,658,598	(\$8,423,526,973)

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. For the purpose of this fiscal note, Oversight will utilize DOR’s estimated impact for this proposal

<u>FISCAL IMPACT – State Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY Unknown)
GENERAL REVENUE FUND				
<u>Revenue Loss - §143.011 - Changes to Individual Income Tax Rate (Flat Rate) - p. (5)</u>	(\$170,563,988)	(\$661,116,957)	(\$598,999,354)	(\$381,995,306)
<u>Revenue Loss - §143.171 - Elimination of Federal Income Tax Deduction for Corporations - p. (5)</u>	\$0	\$91,658,598	\$91,658,598	\$91,658,598
<u>Potential Revenue Loss - §143.011 - Additional Individual Income Tax Rate Reductions, if approved by voters</u>	\$0	\$0	\$0 or (\$64,339,786)	\$0 or (\$8,133,190,265)

<u>FISCAL IMPACT – State Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY Unknown)
and revenue dependent triggers are met - pp. (5-10)				
<u>Cost - DOR - §143.011 - Form & Computer Upgrades</u>	(\$23,818)	\$0	\$0	\$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$170,587,806)</u>	<u>(\$569,458,359)</u>	<u>(\$507,340,756)</u> to <u>\$571,680,542)</u>	<u>(\$290,336,708)</u> to <u>\$8,423,526,973)</u>

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

FISCAL IMPACT – Small Business

Small businesses’ taxation could be impacted by this proposal.

FISCAL DESCRIPTION

Current law imposes a graduated income tax rate and 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 that, for all tax years beginning on or after January 1, 2026, there shall be a flat income tax rate of 4% on all taxable income.

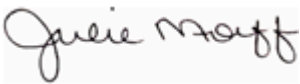
This act also provides for additional reductions in the rate of tax until the income tax is eliminated, provided that a constitutional amendment authorizing such reductions has been adopted. The reductions shall be equal to 0.1% when the balance in the Tax Reform Fund reaches \$120 million, with an additional 0.05% reduction for each \$60 million in excess of the \$120 million minimum balance. (Section 143.011)

Current law also authorizes an income tax deduction for a portion of federal income taxes paid. This act eliminates such deduction beginning with the 2026 tax year. (Section 143.171)

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 Revenue



Julie Morff
Director
February 11, 2025



Jessica Harris
Assistant Director
February 11, 2025