



Estimated Fiscal Impact

*Senate Substitute for Senate Committee Substitute for
House Committee Substitute for House Joint Resolution
Nos. 173 & 174*

26-HCS HJR 173 & 174

26-HCS HJR 173 & 174 would result in an estimated loss of up to \$8.5 billion in state general revenue.

This finding is based on language that would require the elimination of Missouri’s \$8.5 billion in income tax collections, but would not require (only allow) an increase in the sales tax to fill that gap.

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND

The language in 26-HCS HJR 173 & 174 states that lawmakers:

- **Shall** eliminate the state individual income tax.
- **May** increase the existing sales tax rate *OR* expand the sales tax base.

This language means that, if approved by voters, this amendment would require lawmakers to eliminate Missouri’s individual income tax, but it would not require them to increase sales tax to fill that gap.

In Fiscal Year 2027, Missouri expects to collect \$8.5 billion in individual income tax.¹ This is 62.4% of Missouri’s general revenue budget.

Further, while the amendment purports to eliminate the income tax based on “revenue growth,” no specific revenue triggers are included in the language. This means that any amount of growth in general revenue collections, which happens almost every year due to rising wages and annual inflation, could be used to trigger reductions in Missouri’s top rate of income tax.

Because of this lack of specificity, the amendment provides no guarantee that any revenue triggers enacted by future legislation would be fiscally responsible or prevent deep cuts to critical services.

For these reasons, we estimate the fiscal impact of 26-HCS HJR 173 & 174 on state revenue could lead to an annual loss of up to \$8.5 billion in state general revenue.

¹ [Fiscal Year 2027 Executive Budget](#)

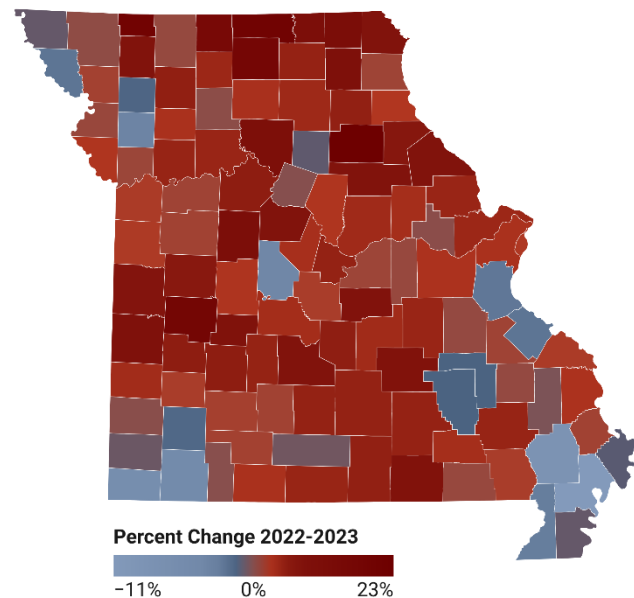
ESTIMATED NET EFFECT ON LOCAL FUNDS

The language in 26-HCS HJR 173 & 174 requires political subdivisions (such as counties, cities, or other local taxing jurisdictions) to make a one-time reduction in sales tax rates, property tax levies, or earnings tax rates to offset any revenue produced by an expansion of the sales and use tax base. The amendment would cap revenue growth in localities to 3% during the first year of implementation.

This one-size fits all approach does not take into account economic growth that may influence the need for (and cost of) maintaining current services.

- If local communities were tied to 3% growth over the past year, this would already put them behind the current annual inflation rate of 3.3%.²
- Inflation has been especially volatile over the past five years with recent trends suggesting additional spikes in inflation are likely.³
- Economic growth varies dramatically by county in Missouri, with most Missouri counties experiencing GDP growth at rates higher than annual inflation⁴.
- Communities with new development that spurs rapid economic growth would be hit especially hard by this cap.

Growth in GDP by County (Inflation Adjusted)



Perhaps more importantly, this cap does not account for changing demographics or economic conditions that would require revenue to grow beyond the average rate of inflation to maintain current services.

Local communities would be unable to keep pace with unpredictable changes in the needs of residents – such as an increase in the number of students in local public schools, growing needs of aging residents, changing transportation infrastructure needs, or natural disaster response.

For these reasons, we estimate that the caps on revenue growth in 26-HCS HJR 173 & 174 could lead to a loss in revenue for many localities, particularly in areas with rapid economic or population growth.

² U.S. Bureau of Labor Statistics [Consumer Price Index - March 2026](#)

³ U.S. Bureau of Labor Statistics [12-month percentage change, Consumer Price Index, selected categories \(past 20 years\)](#)

⁴ Missouri Economic Research and Information Center (MERIC) [County Gross Domestic Product](#)

APPENDIX: DETAILED ESTIMATED IMPACT OF 26-HCS HJR 173 & 174

Because 26-HCS HJR 173 & 174 provides no detail on anticipated legislation to eliminate the income tax, raise the sales tax rate, or expand the sales tax base, it is difficult to develop a precise fiscal estimate. In this case, it is worthwhile to examine a range of possible scenarios to determine the impact on state general revenue as well as Missouri taxpayers.

Scenario 1: Lawmakers eliminate the income tax, but do not agree on a plan to expand or raise sales tax to fill the gap.

If lawmakers eliminate the income tax, but fail to increase sales taxes, Missouri’s annual state general revenue collections would decline by \$8.5 billion.

This amendment requires lawmakers to enact legislation that would eliminate Missouri’s individual income tax but does not require lawmakers to fill that gap by increasing sales tax collections. This means that there is nothing that prevents Missouri lawmakers from eliminating the income tax with no accompanying legislation that would replace lost revenue with increased sales tax collections.

In fact, the state’s own fiscal estimates projected a net loss of \$8.5 billion to the general revenue fund upon full implementation for each prior version of HJR 173 & 174 in which lawmakers included specific revenue triggers.⁵

General Revenue by Source (in millions): FY2027 CRE

Revenue Source	Net Collections	Share of GR
Individual Income Tax	\$8,513.60	62.4%
Sales & Use Tax	\$3,322.60	24.3%
Corporate Income Tax	\$921.10	6.7%
Other	\$892.70	6.5%

Source: [FY2027 Executive Budget](#)

While the amendment states that the elimination of the income tax must be based on “revenue growth,” these revenue triggers would be developed by lawmakers in a future session. This means there is no guarantee that revenue triggers would be fiscally responsible or prevent significant revenue loss and cuts to services.

- State revenue triggers often fail to take into account inflation, population growth, economic downturns, or federal policy changes that can dramatically impact state revenues and the cost of maintaining current services.
- For example, North Carolina recently passed income tax cut triggers based on “revenue growth” that are projected to reduce annual revenues by nearly \$8 billion by FY2033-34.⁶

Moreover, Missouri’s existing income tax cut triggers have not prevented an ongoing structural shortfall of over \$2.5 billion in the current year.

General Revenue Collections vs. Appropriations (in millions)

	Net Collections	Shortfall	Appropriations
FY2024	\$13,429.1	(\$1,791.9)	\$15,221.0
FY2025	\$13,430.9	(\$1,517.3)	\$14,948.2
FY2026	\$13,150.0*	(\$2,272.1)	\$15,422.1
FY2027	\$13,650.0*	(\$2,523.2)	\$16,173.2*

* Estimates from CRE and Governor’s Recommendation

Source: [Budget Fast Facts](#) & [FY2027 Executive Budget](#)

⁵ Fiscal note: [HCS for HJR Nos. 173 & 174](#); [Perfected HCS for HJRs 173 & 174](#); [SCS for HCS for HJRs 173 & 174](#)

⁶ [North Carolina Office of State Budget and Management](#)

Scenario 2: Lawmakers eliminate the income tax and increase the state sales tax rate on the existing sales tax base.

If lawmakers eliminate the income tax and replace that revenue by increasing Missouri’s existing sales tax rate to fill the gap, the average Missourian would see an increase in total taxes of over \$500.

26-HCS HJR 173 & 174 gives lawmakers a five-year window to enact legislation to increase Missouri’s existing sales tax rate to replace the individual income tax. If lawmakers were to increase the existing state general sales tax rate of 3% to fully replace the revenue lost from the elimination of the income tax:

- Sales tax collections would need to increase to \$11.8 billion annually to fill the gap – over 3.5 times the current sales tax revenue of \$3.3 billion.
- To generate enough revenue to fully replace lost income tax revenue, Missouri’s current general state sales tax rate would need to increase from 3% to 10.7%.
- As a result, Missouri’s average combined state and local sales tax rate would nearly double to 16%; in some localities, the maximum tax rate would be nearly 20%. This would make Missouri’s sales tax rates far higher than every other state in the nation.⁷

Estimated Increase to Missouri’s General Sales Tax Rate to Replace Individual Income Tax Collections

	Current Sales Tax	Estimated Increase*	New Sales Tax
<i>General Sales Tax Collections</i>	\$3,322,600,000	\$8,513,600,000	\$11,836,200,000
General Sales Tax Rate	3.0%	7.7%	10.7%
State Earmarked Sales Tax Rate	1.225%		1.225%
Total State Sales Tax Rate	4.225%		12%
<i>Average Local Sales Tax Rate</i>	3.96%		3.96%
<i>Maximum Local Sales Tax Rate</i>	8.01%		8.01%
Combined State & Local (Average)	8.2%		15.9%
Combined State & Local (Max)	12.2%		19.9%

* Missouri Budget Project analysis of the FY2027 Consensus Revenue Estimate; assumes that each 1% increase in Missouri’s general sales tax rate would generate \$1,107,533,333; Sales tax rate estimates may not sum precisely due to rounding.

Source: Missouri Department of Revenue [2026 Sales/Use Tax Rate Tables: 05/2026 - 06/2026](#)

Sales and property taxes make up the bulk of taxes paid for low and middle-income families – not income taxes. Replacing Missouri’s individual income tax with sales taxes would increase taxes for most Missourians.

- The average Missourian earning \$65,000/year would face a \$535 net tax increase.⁸
- This would dramatically increase the everyday cost of living for most Missourians.

⁷ Tax Foundation [State & Local Sales Tax Rates as of January 1, 2026](#)

⁸ Institute on Taxation and Economic Policy (ITEP)

Scenario 3: Lawmakers eliminate the income tax and expand the existing sales tax to all services except housing and health care.

If lawmakers eliminate the income tax and expand Missouri's existing 3% sales tax rate to services with exemptions for housing and health care, Missouri's annual state general revenue collections would decline by \$6.2 billion.

Missouri's constitution currently prohibits the expansion of Missouri's sales tax base to services that were not taxed as of January 1, 2015. This amendment gives lawmakers a five-year window to enact legislation to expand Missouri's existing sales tax base to include services for the purpose of eliminating the income tax. While housing and health care are not explicitly exempted in this legislation, the Governor has indicated that these services would not be subject to taxation.¹⁰

Missouri's personal consumption expenditures (PCE) can be used to estimate how much revenue could be generated by expanding Missouri's existing 3% state general sales tax to services.¹¹

- Services related to housing or health care account for \$115 billion annually, or nearly half of all household consumption expenditures in Missouri.
- Food services, accommodations, and gambling (services that are already subject to sales tax)¹² account for an additional \$25 billion, meaning that over 2/3 of services in Missouri are already taxed or would be exempt from sales tax under this scenario.
- Only \$2.3 billion could be generated by expanding the sales tax base with exemptions for health and housing. This is \$6.2 billion short of what is needed to replace Missouri's \$8.5 billion in income tax revenue.

Estimated Revenue Generated With a 3% General Sales Tax on Household Consumption Expenditures on Services

Type of Service	Spending (in millions)	Estimated Tax Revenue
Household Consumption Expenditures on Services	\$217,056.4	\$6,511.69
<i>Housing and utilities</i>	<i>(\$52,385.2)</i>	<i>\$0.00</i>
<i>Health care</i>	<i>(\$62,677.5)</i>	<i>\$0.00</i>
Transportation services	\$10,602.4	\$318.07
Recreation services	\$12,903.7	\$387.11
Food services and accommodations	\$22,944.4	\$688.33
Financial services and insurance	\$28,304.8	\$849.14
Other services	\$27,238.4	\$817.15
Major Services Currently Subject to Sales Tax		
<i>Gambling</i>	<i>(\$3,095.5)</i>	<i>\$0.0</i>
<i>Purchased meals and beverages</i>	<i>(\$19,947.3)</i>	<i>\$0.0</i>
<i>Accommodations</i>	<i>(\$2,280.9)</i>	<i>\$0.0</i>
Expenditures on Services (Adjusted)	\$76,670.0	\$2,300.10
Individual Income Tax Annual Revenue		\$8,513.60
Estimated shortfall		(\$6,213.50)

Source: U.S. Bureau of Economic Analysis, "[SAPCE3 Personal consumption expenditures \(PCE\) by state by type of product 1](#)" (accessed Friday, May 1, 2026).

Scenario 4: Lawmakers eliminate the income tax and expand the sales tax to all services with no exemptions.

If lawmakers eliminate the income tax and expand Missouri's sales tax base to all services with no exemptions, Missouri's annual state general revenue collections would decline by over \$2.7 billion.

Given that no exemptions are included in the amendment, it is also useful to examine a scenario in which lawmakers choose to expand sales taxes to all services, including housing and health care.

- Only \$5.8 billion could be generated by taxing nearly every service expenditure in Missouri.
- That is \$2.7 billion short of what is needed to replace Missouri's \$8.5 billion in income tax revenue.

Estimated Revenue Generated With a 3% General Sales Tax on Household Consumption Expenditures on Services

Type of Service	Spending (in millions)	Estimated Tax Revenue
Household Consumption Expenditures on Services	\$217,056.4	\$6,511.69
Housing and utilities	\$52,385.2	\$1,571.56
Health care	\$62,677.5	\$1,880.33
Transportation services	\$10,602.4	\$318.07
Recreation services	\$12,903.7	\$387.11
Food services and accommodations	\$22,944.4	\$688.33
Financial services and insurance	\$28,304.8	\$849.14
Other services	\$27,238.4	\$817.15
Major Services Currently Subject to Sales Tax		
<i>Gambling</i>	<i>(\$3,095.5)</i>	<i>\$0.0</i>
<i>Purchased meals and beverages</i>	<i>(\$19,947.3)</i>	<i>\$0.0</i>
<i>Accommodations</i>	<i>(\$2,280.9)</i>	<i>\$0.0</i>
Expenditures on Services (Adjusted)	\$191,732.7	\$5,751.98
Individual Income Tax Annual Revenue		\$8,513.60
Estimated shortfall		(\$2,761.62)

Source: U.S. Bureau of Economic Analysis, "[SAPCE3 Personal consumption expenditures \(PCE\) by state by type of product ¹](#)" (accessed Friday, May 1, 2026).

¹⁰ [2026 State of the State Address](#)

¹¹ Unfortunately, there is not one database that includes the entire universe of taxable services at the state level. Estimates based on PCE do exclude some business- to-business (B2B) transactions that may be subject to tax. At the same time PCE estimates include some services already subject to tax as well as several services that would be extremely difficult or unusual to tax; as such this estimate overstates the amount of revenue that could be generated by taxing services used by households. This likely offsets a sizable share of the revenue from B2B transactions that is excluded.

¹² Food services and accommodations (such as restaurants and hotels) are already largely subject to the state general sales tax; gambling is also subject to a substantial earmarked sales tax making it unlikely that lawmakers would impose additional sales taxes. This analysis is unable to exclude several services also currently subject to tax in Missouri due to data limitations. This includes sales taxes on recreation including venues such as amusement parks, concert venues, or sporting events, as well as taxes on some transportation and telecommunications services.