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MISSOURI TAXPAYER BILL OF RIGHTS

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KEY TAKEAWAYS

A Missouri Taxpayer Bill of Rights would build on the legacy of past tax and expenditure limits, defending the public from overbearing government by implementing stronger protections that:

- Impose a "speed limit" on total government spending and spendable revenue equal to a combination of the population growth rate and a capped measure of inflation.* This rate would allow the government to offer a stable total level of services over time while protecting taxpayer pocketbooks.
- Trigger automatic tax cuts when revenues exceed the speed limit unless voters approve a request by the legislature to use the money to hike total spending for that year.
- Cap property tax growth to ensure that it never rises faster than prices or paychecks.

* The Missouri Taxpayer Bill of Rights inflation measure is the lesser of consumer price inflation, wage inflation, or a hard cap. Spendable revenue is revenue left over after mandatory Missouri Taxpayer Bill of Rights refunds and Recession Preparedness Fund contributions.

ADVANCING LIBERTY WITH RESPONSIBILITY BY PROMOTING MARKET SOLUTIONS FOR MISSOURI PUBLIC POLICY

- Block carveouts that circumvent or undermine the speed limit or obstruct tax rate cuts.
- Maintain and strengthen the ban on state-imposed unfunded mandates.
- Give taxpayers the same convenience of access to budget, financial, and program performance information as legislators to enhance transparency and accountability.
- Bolster budget stability during fiscal emergencies with a recession preparedness fund.

INTRODUCTION

Missouri is being left in the dust by states like Texas, Tennessee, and Florida in the race to attract new residents, jobs, investment, and growth. Other states, including some of Missouri's immediate neighbors, are aggressively cutting taxes, reining in wasteful spending, and expanding the freedoms and opportunities that their residents can enjoy without needing to seek government permission. To join the vanguard of pro-freedom, pro-growth states, Missouri policymakers would do well to tilt the balance of power away from government and toward the hard-working people who show up each day to their jobs, start businesses, and are raising the next generation of Missourians.

A Missouri Taxpayer's Bill of Rights would deliver on past promises to protect taxpayers from overbearing government by rewriting the social contract between lawmakers, bureaucrats, and the people of Missouri. The sections that follow describe the main pillars of a Missouri Taxpayer Bill of Rights.

A ROBUST SPEED LIMIT FOR GOVERNMENT SPENDING AND TAXES

In just the four-year period from 2019 to 2023, Missouri state government grew by nearly 40 percent even before adding the federally funded portions of state spending.[1] For perspective, this figure dwarfs the 22 percent cumulative inflation that occurred during this same period (with 20 percentage points out of the 22 taking place since 2021 in response to reckless federal stimulus).[2] Growth in state government has also outpaced Missouri's 26 percent growth in economic output (gross domestic product) since 2019, and it stands in stark contrast to Missouri's flat population growth.[3] In more relatable terms, state government now collects over $700 more per resident *after adjusting for inflation* than it collected in 2019.

Missourians have long understood the need to stem rapid government growth. In 1980, Missouri voters approved a tax and expenditure limit (TEL) known as the Hancock Amendment.[4] At the time of its passage, the amendment was thought to be one of the strongest TELs in the country. But as Missouri taxpayers have learned over the past 40 years, and as evidenced by the recent explosive growth in state spending, Missouri's primary TEL has proven woefully ineffective at putting taxpayers ahead of government.

Fortunately, decades of extensive research on and experience with TELs across the country provide compelling lessons on the elements of a TEL that are necessary to effectively protect taxpayers' pocketbooks from excessive government. The Missouri Taxpayer Bill of Rights model policy is informed by Colorado's Taxpayer Bill of Rights—considered until now the gold standard TEL—and would better fulfill the promises that Missouri's patchwork of TELs like the Hancock Amendment have made. If enacted, the Missouri Taxpayer Bill of Rights would be a stronger TEL that better protects taxpayers, improves accountability, gives voters more power, and lays the foundation for a more prosperous Missouri.

The Missouri Taxpayer Bill of Rights fiscal speed limit has the following critical characteristics:

- It would be constitutional rather than statutory.
- It would be tied to a comprehensive base of spending and revenues without carveouts and loopholes.
- It would allow stable provision of government services instead of permitting rapid annual growth.

- It would be enforced by automatic tax cuts and/or refunds.
- It would be linked to other budget rules, particularly balanced-budget requirements.

HOW THE MISSOURI TAXPAYER BILL OF RIGHTS FISCAL SPEED LIMIT WORKS

- Each year, state lawmakers make appropriations decisions subject to the cap on the expansion of *total state spending* equal to last year's actual spending adjusted for a capped measure of inflation and population growth. Tax credits deemed equivalent to government subsidies count against the spending limit.
- The same speed limit applies to revenues. If revenue collection exceeds the cap, automatic tax rate cuts go into effect, with some surplus revenue going to the Recession Preparedness Fund (discussed later in this report). The legislature can convert the tax rate cut to a refund if the previous year's revenues were below the limit. Otherwise, suspending the rate cut requires voter approval.
- Voters must approve the use of surplus revenues for spending or hiking spending beyond the cap.
- Lawmakers can freeze spending and revenue caps in place during fiscal emergencies to prevent revenue or spending disruptions from becoming permanent and to facilitate a return to normal.
- Localities are bound by the same speed limit, ensuring that taxpayers are fully protected from all sources of excess government growth.
- The state remains prohibited from imposing unfunded mandates, which are a veiled way to circumvent the limit. Any *funded* mandates from the state count toward the state, not local, limit. Mandatory spending of federal funds does not count against state or local limits.

The Missouri Taxpayer Bill of Rights applies the speed limit to both sides of the budget ledger—spending *and* revenues—to prevent lawmakers from diverting excess revenues away from tax cuts toward other uses and from using discretionary federal funds to permanently enlarge government. The speed limit applies to the broadest possible base of state revenues (i.e. taxes *and* fees, not federal funds) and spending to guard against attempts to create loopholes and carveouts. If government officials wish to tax or spend beyond the limit, the Missouri Taxpayer Bill of Rights requires explicit voter approval with standardized ballot language that clearly explains the amount of the one-time hike in the level of the cap and the justification for doing so.

The choice of a capped inflation measure plus population growth as the speed limit is a natural one, for it allows a stable provision of total government services while giving lawmakers the flexibility to set priorities for how to allocate spending under that overall cap. Specifically, the speed limit allows the government to keep up with the rising cost of providing services because of higher prices and more people to serve while simultaneously protecting taxpayers against runaway cost growth. Importantly, the limit also requires lawmakers to seek the permission of voters to increase the overall size, scope, or burden of government.

The Missouri Taxpayer Bill of Rights limit differs from Missouri's most famous TEL—the Hancock Amendment—in key ways:

- The Missouri Taxpayer Bill of Rights limits annual growth in government, whereas the Hancock Amendment establishes an ever-increasing ceiling pegged to a ratio set in 1980 that now allows nearly unchecked government growth from one year to the next and makes any reduction in government fragile and fleeting.
- The Hancock Amendment benchmarks to total state income. But because total state income tends to outpace inflation plus population growth, government is able to expand its scope without voter approval.

- The Missouri Taxpayer Bill of Rights limits broad-based revenue collection and spending, whereas the Hancock Amendment only addresses revenues and has significant loopholes. For example, the legislature has used tax credits to circumvent the normal budget process and shrink the revenue base. As a result of this game-playing, the Hancock Amendment's refund provisions haven't been triggered since 1999. The Hancock Amendment's broken enforcement relies on incompatible definitions such that determinations are not made regarding whether any tax or fee increase meets the threshold for a public vote. The Missouri Taxpayer Bill of Rights's limit is self-enforcing through automatic tax cuts based on actual realized outcomes.

Despite the intentions of the Hancock Amendment and record government growth, taxpayers have not received Hancock-related state tax refunds since 1999. Moreover, due to the Hancock Amendment's design flaws and the rampant exploitation of tax credit loopholes, it is unlikely that taxpayers will ever receive such refunds again.

With regard to enforcement, the Missouri Taxpayer Bill of Rights limits are based on the previous year's actual revenue and spending totals. In the case of spending, government officials simply would not have the authority to spend past the limit unless voters approved such spending. On the revenue side, if total collections at the end of the fiscal year exceeded the limit, any excess would get split between automatic tax cuts or refunds and, if necessary, replenishing the Recession Preparedness Fund (explained in more detail later). By default, the automatic tax cuts come in the form of lower rates, though the legislature may convert the rate cut to a one-time refund if it believes the excess revenue to be anomalous and if revenues did not exceed the speed limit in the prior year.[†] The Missouri Taxpayer Bill of Rights leaves intact any otherwise-scheduled tax rate cuts and preserves the ban on state-imposed unfunded mandates to prevent the state from burden-shifting.

The bill's higher standards of accountability and transparency also aid enforcement. Specifically, the government would be required to ensure the same convenience of access to budget, financial, and program performance information for taxpayers that is available to legislators.

ENSURING PROPERTY TAXES DO NOT GROW FASTER THAN PRICES OR PAYCHECKS

From 2011 to 2021, local property tax revenues surged by 43 percent in Missouri—double the sum of cumulative inflation (19%) and population growth (less than 3%) during that period. In other words, Missourians now contend with a much higher property tax burden than they faced in the past despite the protections that Missouri's Constitution is supposed to provide through the Hancock Amendment.

The relevant provision in this case is a local tax cap that is often referred to as a "rollback provision," which stipulates that if property tax revenues increase faster than inflation—for example, from property value appreciation—the property tax rate must be adjusted downward (i.e., "rolled back") to realign inflation-adjusted revenues with their previous level. The spirit of the provision is to avoid punishing taxpayers—and preventing local governments from profiting—when property values rise rapidly. Only Kansas City is exempt from this rollback requirement.[5]

While the rollback provision has helped to some degree for residential property, it is not consistently applied to personal property taxes owed by residents on their cars—which can amount to several hundred dollars a year on each vehicle—and by businesses on tangible property like office equipment and farm machinery. While used cars typically depreciate over time (leading to lower property tax payments as a vehicle loses value) prices for used cars surged by over 50 percent between February 2020 and 2022 and are still up by over 25 percent.

[†] By default, income tax rate cuts (or the local earnings tax rate, if applicable) would be prioritized, then sales tax cuts.

Even prior to COVID-19, Missouri stood out as having a high personal property tax burden. A 2012 study identified Missouri as having the third-highest personal property tax collections per capita in the country, and a study from 2019 found that Missouri has the fifth-highest reliance on personal property taxes as a share of the overall property tax base.[6]

As it applies to businesses, the personal property tax penalizes capital investment, making it one of the most harmful forms of taxation with regard to economic growth. Adding to this burden, businesses also pay a commercial property surtax (or surcharge) that is also exempt from the Hancock rate rollback provisions. Commercial property valuations have increased substantially since the tax was first levied in 1985, and as of 2024 only one county has lowered its rate.

HOW THE PROPERTY TAX CAP WORKS

- Each jurisdiction is subject to an annual cap on property tax collections from *all* taxable real and personal property equal to last year's collections adjusted for the lesser of inflation or Missouri wage growth.
- The cap is enforced through an automatic reduction in property tax rates.

The Missouri Taxpayer Bill of Rights would strengthen and expand existing property tax rollback provisions. Specifically, it strengthens the growth-rate cap on property tax collections by ensuring that collection growth never exceeds inflation or Missouri wage growth. If property valuations rise faster than the growth cap, the tax rate automatically ratchets down. Importantly, this expands Missouri's current rollback provisions to apply to *all* taxable real and personal property (like vehicles), not just residences. Together, these protections ensure that property taxes do not rise faster than prices or paychecks.

SUPPORTING FISCAL LIMITS AND BUDGET RESILIENCE WITH A RECESSION PREPAREDNESS FUND

Fiscal limits are tested most severely during downturns and emergencies, when lawmakers face the greatest temptation to toss rules to the side. Even without the Missouri Taxpayer Bill of Rights, Missouri is already bound by a balanced budget requirement in the state constitution that prevents the state from spending more than it takes in.[7] Maintaining budget balance can be especially challenging during recessions, when revenues fall and spending on safety-net programs like Medicaid rises, creating the potential for severe budgetary volatility. To soften the disruptive policy tradeoffs associated with such volatility, many states set aside money when times are good in a "rainy day fund" that can be tapped during a downturn.

Unfortunately, problems with Missouri's current rainy-day fund have kept it from ever being called upon in an emergency. Missouri's rainy-day fund, the Budget Reserve Fund (BRF), was enshrined in the state's Constitution in 1999. When enacted, the fund was intended to serve two purposes: budget stabilization in times of fiscal emergency and to help align available revenues with spending needs over the course of each fiscal year. Importantly, the BRF, like most other rainy-day funds, is subject to various rules that govern how much money it may contain and the situations under which the money can be used.

These rules make the BRF too small, too inflexible to use during an emergency, and difficult to replenish. A Moody's Analytics stress test simulating how the state would fare in the event of a severe recession found that Missouri could face a shortfall of $2 billion, which dwarfs the entire size of the BRF, let alone the smaller amount of funds that could reasonably be accessed.[8]

As discussed earlier, the Missouri Taxpayer Bill of Rights already allows lawmakers to freeze the fiscal speed limit in place during crises to stop steep revenue declines or emergency spending cuts from automatically becoming permanent. However, the bill does not stop there. It also builds a Recession Preparedness Fund (RPF) to shore up fiscal resilience and support the speed limit while avoiding the BRF's shortcomings.

How the RPF Would Work

- When revenues exceed the speed limit or when there are unused revenues at the end of the year, a portion of the surplus would be used to replenish the RPF to ensure that it is on track to being adequately capitalized. The rest would go to automatic tax cuts.
- Lawmakers could tap the funds in the RPF to cover revenue shortfalls in a downturn or crisis.
- The RPF would be governed by three policy parameters. The *target size* would set the maximum balance. The *fill rate* would determine the excess revenue split between automatic tax cuts and RPF replenishment. The *maximum drawdown rate* would limit how rapidly funds can be exhausted to stabilize the budget.
- The target size would be set to 15 percent of last year's net revenues, and the maximum drawdown rate would be set to 75 percent when the RPF was at its target size, or else 50 percent. The fill rate would also adjust with the RPF balance. Lawmakers would have limited discretion to adjust these parameters.

In a general sense, the way the RPF would work is quite simple. When revenues exceed estimates or the fiscal speed limit, a portion of those surplus funds would be deposited in the fund to be used only when an emergency or economic downturn occurs. Then, once the economy improves, the fund would be repaid. But as with other rainy-day funds, the devil is in the details.

To ensure the fund has enough money to sufficiently stabilize Missouri's budget during an economic downturn, the Missouri Taxpayer Bill of Rights target size would be set to match the revenue shortfall of the 2008 recession as a percentage of state tax revenues at the time. Following the 2008 recession, Missouri's revenues fell by $1.2 billion, which was approximately 15 percent of net revenues. Today, an appropriate target size of 15 percent of net revenues based on last year's revenue collections would result in an RPF fund balance of nearly $2 billion. By comparison, Missouri's current rainy-day fund, the BRF, has a maximum balance of $750 million, and only 50 percent of the balance can be used for stabilization.

When surplus revenues are collected, the share of those funds that would be deposited in the RPF is called the fill rate. The Missouri Taxpayer Bill of Rights would adjust the fill rate based on the balance of funds in the RPF. When the balance is low, the fill rate would be set at 100 percent in order to bring the RPF balance above critical levels. As the RPF approached its target size, the fill rate would adjust downward, eventually reaching 0 percent once the RPF is fully capitalized. At that point, *all* excess revenues above the speed limit would go toward automatic tax cuts and refunds.

The maximum drawdown rate is the share of the fund that can be used for budget stabilization in any given year. The Missouri Taxpayer Bill of Rights maximum drawdown rate would be set to 75 percent, assuming the balance was at the fund's target size. When the balance was below the target, the drawdown rate would drop to 50 percent, with an option for the governor to request an increase, which would need to be approved by a two-thirds vote of each legislative chamber. Note that, unlike the current BRF, the RPF would allow the state to draw upon funds during economic downturns without supermajority requirements or artificially rigid repayment rules.

These parameters work together to ensure that the RPF would achieve its goals of: (1) providing sufficient and flexible access to funds during times of emergency, (2) ensuring funds are available in case the need persists for longer than a year, and (3) maintaining some balance until the fund can be replenished.

CONCLUSION

Missouri's government finances are a mess and are only getting worse. Despite the promises of past TELs in Missouri like the Hancock Amendment, the size of Missouri's state budget continues to grow—nearly doubling over the past five years. At the same time, the state's economy remains stuck in the middle of the national pack and far behind national leaders like Texas, Tennessee, Florida, and others. Missouri has the opportunity to embrace the lessons learned by Colorado with its current best-in-class TEL and build upon them by implementing the new platinum standard for protecting taxpayers.

Adopting a taxpayer bill of rights with the provisions described above is Missouri's best opportunity to finally push back against the constantly increasing burden of government and make Missouri a model of fiscal stewardship. The question remains whether state elected officials will seize the opportunity, or if it will be left to voters once again to step up and take action.

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NOTES

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