Understanding Missouri Amendment 5

A Nonpartisan Guide for Hannibal Area Chamber Members

The Hannibal Area Chamber of Commerce has prepared this guide to help members understand Missouri Amendment 5. This document is intended to provide factual information about the proposed constitutional amendment and summarize commonly discussed viewpoints. It is **not** an endorsement of or opposition to the amendment.

Because many details would depend on future legislation, some potential impacts cannot yet be determined with certainty. Chamber members are encouraged to review the amendment, ask questions, and evaluate how the proposal may affect their businesses, families, and communities.

What Would Amendment 5 Do?

If approved by voters, Amendment 5 would amend the Missouri Constitution to:

- Require the Missouri General Assembly to reduce and eventually eliminate the state individual income tax based on revenue growth.
- Permanently prohibit Missouri from imposing a state individual income tax after it has been eliminated.
- Allow the General Assembly to broaden the state's sales and use tax base to include additional goods and services through future legislation.
- Require any sales tax expansion enacted for this purpose to be paired with reductions in the individual income tax.
- Require local governments to reduce certain local tax rates if expanding the sales tax base increases local revenue, while protecting public school funding.

What Amendment 5 Does Not Do Automatically

The amendment would **not**:

- Immediately eliminate the individual income tax.
- *Automatically* tax professional services, repairs, digital services, or any other currently untaxed service.
- Establish a new statewide sales tax rate.
- Identify which services or transactions would become taxable.
- Determine exemptions for businesses or consumers.
- Specify how quickly income tax rates would decline.
- Eliminate local taxes.

Many of these decisions would be made later through legislation adopted by the Missouri General Assembly.

Key Questions for Chamber Members

How could Amendment 5 affect businesses?

Supporters believe reducing and eventually eliminating the individual income tax could improve Missouri’s competitiveness, encourage investment, and allow many business owners who pay individual income tax to keep more of their earnings.

Critics believe the amendment creates uncertainty because businesses cannot yet know which goods or services may become taxable under future legislation or what new compliance requirements could result.

If future legislation broadens the sales tax base, businesses that currently do not collect sales tax could face new responsibilities such as tax collection, reporting, accounting changes, or point-of-sale updates.

Questions that remain unanswered include:

- Which services, if any, would become taxable?
- Would business-to-business transactions receive exemptions?
- What compliance requirements would apply to small businesses?
- How much time would businesses have to prepare?

How could Amendment 5 affect taxpayers?

Supporters emphasize that individuals who currently pay Missouri income tax could benefit as rates are gradually reduced over time.

Critics note that if future legislation expands the sales tax base, some households could pay more in sales taxes depending on what becomes taxable and their spending patterns.

Because the amendment does not establish future tax rates or taxable services, the overall impact on any individual taxpayer cannot yet be calculated.

How could Amendment 5 affect local governments?

If future legislation expands the sales tax base, local governments could collect additional revenue because existing local sales taxes would apply to a broader range of taxable transactions.

The amendment generally requires local governments to offset approximately **97%** of that additional revenue by making a one-time reduction to one or more local tax rates. Depending on the community, this could involve:

- Local sales taxes
- Personal property taxes
- Residential property taxes
- Certain other operating property tax levies
- Earnings taxes (where applicable)

The amendment also states that these adjustments **may not reduce funding for public schools**.

Supporters say these provisions prevent unintended local tax increases while protecting schools.

Critics question how the calculations would work in practice and whether the requirements could reduce local fiscal flexibility.

Could Amendment 5 affect Hannibal's competitiveness?

Supporters argue that eliminating the individual income tax could make Missouri more attractive for workers, entrepreneurs, and business investment.

Critics argue that if future legislation significantly expands taxable goods or services or increases overall sales tax collections, purchasing behavior could change—particularly in communities near state borders.

For Hannibal, the long-term effect would depend on future legislative decisions, neighboring states' tax policies, consumer behavior, and the final structure of Missouri's tax system.

What Would Still Need to Be Decided?

Even if Amendment 5 passes, many important questions would remain for the Missouri General Assembly, including:

- Which goods and services would be taxable?
- Whether business-to-business transactions would be exempt.
- Whether any services would remain exempt.
- How quickly income tax rates would decline.
- How local tax reductions would be calculated.
- What compliance rules would apply to businesses.
- How implementation would occur.

These decisions would be made through future legislation rather than by the constitutional amendment itself.

Frequently Discussed Viewpoints

Supporters generally argue that Amendment 5 could:

- Allow Missourians to keep more of their earnings.
- Improve Missouri's competitiveness.
- Modernize the state's tax system.
- Reduce reliance on income taxes.
- Prevent local governments from receiving unintended revenue increases from a broader sales tax base.
- Protect public school funding while reducing certain other local taxes.

Critics generally argue that Amendment 5 could:

- Shift more of Missouri's tax system toward consumption-based taxes.
- Create uncertainty until future legislation is adopted.
- Increase compliance costs for businesses if additional services become taxable.
- Affect households differently depending on income and spending patterns.
- Limit local governments' flexibility in responding to future financial needs.

These viewpoints reflect policy arguments made by supporters and critics and are not guarantees of future outcomes.

Bottom Line

Amendment 5 would establish a constitutional framework for gradually eliminating Missouri's individual income tax while authorizing future expansion of the sales and use tax base and requiring certain local tax reductions.

The amendment establishes the framework, but many of the practical details - including what would become taxable, how businesses would comply, and how local tax adjustments would be implemented - would be determined later through legislation.

For Chamber members, the decision involves considering both the constitutional changes proposed by Amendment 5 and the significant role future legislative decisions would play in determining its ultimate impact.

Primary Sources

This guide was prepared by the Hannibal Area Chamber of Commerce using:

- The text of Missouri House Joint Resolution Nos. 173 & 174 (Amendment 5)
- The official ballot language
- The official fiscal note prepared by the Missouri General Assembly

This document is intended for informational purposes only and should not be considered legal, tax, or accounting advice.