

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4441-01
Bill No.: SB 814
Subject: Military Affairs; Taxation and Revenue - General; Taxation and Revenue -
Income
Type: Original
Date: January 27, 2016

Bill Summary: This proposal allows an individual to deduct income earned through active military duty from their Missouri adjusted gross income.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(\$384,576)	(\$333,000)	(\$333,000)
Total Estimated Net Effect on General Revenue	(\$384,576)	(\$333,000)	(\$333,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (B&P)** assume this proposal would have impact the calculation required under Article X, Section 18(e) of the state constitution.

B&P officials stated this proposal provides that any taxable income received while on active duty may be deducted from an individual's Missouri adjusted gross income and to the extent this reduces taxable income, this proposal will reduce state revenues by up to 6.0% of the amount exempt. B&P officials noted that the Annual Report of the MO National Guard showed 176 Airmen and 908 soldiers serving in Missouri's National Guard deployed around the world and further stated that there are likely many other Missouri citizens serving on active duty. B&P indicated they do not have data indicating how many Missourians are deployed on active duty, or the duration of deployment.

Officials from the **Department of Revenue (DOR)** assume this proposal will reduce state revenues by an unknown amount. The proposal allows a taxpayer who receives military income while performing on active duty to deduct taxable military income from the taxpayer's Missouri adjusted gross income.

DOR assumes the proposal will require two (2) Revenue Processing Technicians I (Range 10, Step L) for error corrections and correspondence in processing individual income tax returns. Each technician requires CARES equipment and license. The assumed cost for the two (2) technicians is \$87,206 FY 2017, \$90,992 FY 2018 and \$91,734 FY 2019.

Oversight notes this proposal would change a limited number of computations on income tax returns and would not be expected to have a significant impact on the number of returns filed. Oversight notes a significantly high percentage of income tax returns are prepared online, electronically, or by paid preparers, and assumes there would not be a significant number of additional errors resulting from the changes in this proposal. Oversight assumes existing DOR staffing would be adequate to implement this proposal. If unanticipated additional cost are incurred or if multiple proposals are implemented that increase DOR costs or the workload for DOR employees, resources could be requested through the budget process.

ASSUMPTION (continued)

DOR officials also provided an estimate of the IT cost to implement the proposal of \$51,576 based on 503 hours of programming at the current state contract rate of \$75 per hour for IT Contractor hours to make changes to DOR systems.

Officials from the **Department of Public Safety - Missouri National Guard (MNG)** state the proposal would not have a material impact for the Missouri National Guard and Missouri Air Guard. In 2015, fewer than 5 soldiers would have qualified for this tax exemption. However, during the height of the Desert Storm / Desert Shield programs approximately 1,500 MNG would have qualified. MNG was attempting to provide numbers to Oversight regarding the number of Missouri regular Army soldiers are currently deployed (and would qualify for this benefit) as well as their average annual pay; however, due to time constraints, Oversight needed to prepare this fiscal note.

Oversight researched military troops and pay on several Department of Defense websites and found that approximately 9,800 soldiers are currently deployed in Afghanistan. Based upon Missouri's population compared to the rest of the nation, Oversight will assume that 1.89% of them would be considered Missourians. Therefore, Oversight assumes 185 Missouri soldiers would currently qualify under this bill. Assuming an average taxable (some portion of overseas combat pay is already tax-exempt) salary of \$30,000, this would equate to a loss of Missouri income tax of approximately \$333,000 in a given year.

Estimated number of soldiers deployed	9,800
Estimated Missourians from that number (1.89%)	185
Estimated taxable income	\$30,000
Total taxable income (\$30,000 x 185)	\$5,550,000
Missouri individual income tax rate	<u>x 6%</u>
Estimated impact of the bill	\$333,000

Obviously, this estimate could be impacted by many factors, including:

1. Conflict could break out in another theater.
2. Troop numbers could be reduced in Afghanistan
3. Troop numbers could be increased in Afghanistan and/or Iraq
4. Other unforeseen events

ASSUMPTION (continued)

As of November 30, 2015 there were 1,309,239 Department of Defense active duty soldiers broken out by service:

Army	487,134
Navy	327,793
Marine Corps	183,597
Air Force	<u>310,715</u>
Total	1,309,239

Officials from the **Office of the Secretary of State**, and the **Joint Committee on Administrative Rules** assume this proposal would have no impact on their respective organizations.

Officials from the **Attorney General's Office** and the **Department of Public Safety - Missouri National Guard** did not respond to Oversight's request for fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE			
<u>Costs</u> - DOR - programming changes	(\$51,576)	\$0	\$0
<u>Revenue Reduction</u> - DOR - Income tax deduction for income earned on active military duty	<u>(\$333,000)</u>	<u>(\$333,000)</u>	<u>(\$333,000)</u>
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	<u>(\$384,576)</u>	<u>(\$333,000)</u>	<u>(\$333,000)</u>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2017 (10 Mo.)	 FY 2018	 FY 2019
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

The proposed legislation allows an individual to deduct income earned through active military duty from their Missouri adjusted gross income.

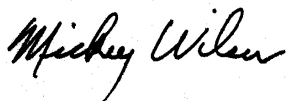
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration
Budget and Planning
Department of Revenue
Joint Committee on Administrative Rules
Office of the Secretary of State
Department of Public Safety - Missouri National Guard

Not Responding:

Attorney General's Office



Mickey Wilson, CPA
Director
January 27, 2016

Ross Strobe
Assistant Director
January 27, 2016