

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4441-02  
Bill No.: SCS for SB 814  
Subject: Military Affairs; Taxation and Revenue - General; Taxation and Revenue - Income  
Type: Original  
Date: February 5, 2016

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

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(Could exceed \$3,037,746)	(Could exceed \$3,600,000)	Could exceed \$3,600,000)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(Could exceed \$3,037,746)</b>	<b>(Could exceed \$3,600,000)</b>	<b>Could exceed \$3,600,000)</b>

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

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 6 pages.

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

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

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

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

## FISCAL ANALYSIS

### ASSUMPTION

**Oversight** notes that SCS for SB 814 differs from SB 814 in that the language of SB 814 restricted the effect of the proposal to cover only those military personnel ordered to serve in conflict (war) under Title 10 U.S.C. 672(d) or U.S.C. 673(b). SCS for SB 814 applies to all active duty income.

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

**B&P** officials assumes this proposal would exempt all active duty military income earned for Missouri residents stationed inside Missouri. Based upon Department of Defense (DOD) information, there are approximately 1.4 million active duty military personnel, with approximately 1,800 being active duty Missouri residents serving within Missouri.

The DOD estimates that gross income for all active duty military personnel is \$57.0 billion . Based upon this information, B&P calculated that \$73.4 million is attributable to Missouri with approximately \$58.2 being taxable after allowance for standard and personal deductions. B&P has no ability to determine what other deductions in any, for which an individual may qualify.

**B&P** further notes that some other active military personnel would also qualify for this exemption if they enter or leave the military during the year, are stationed out of state but have a spouse living in Missouri, or if the individual resides in Missouri for at least 30 days within the year. B&P noted they have no way to estimate the number of additional individuals that could be impacted.

B&P used a tax rate of 6% and total taxable income of \$58.2 million to calculate reduced Total State Revenue and General Revenue by at least \$3.5 million per year beginning in 2017.

Officials from the **Department of Revenue (DOR)** assume that under Section 143.174, when calculating the Missouri taxable income, the proposal allows for a deduction of 100 percent of the income received by a person for active duty with the armed forces. The amount may be deducted from the Missouri adjusted gross income to determine the taxpayer's taxable income.

ASSUMPTION (continued)

According to the DOD, there are approximately 1,800 Missouri soldiers with an average income of \$42,000 stationed in Missouri that would qualify for the deduction. Assuming a personal exemption and standard deduction, DOR estimates approximately \$60.5 million would no longer be subject to tax. The exclusion of \$60.5 million would lead to a decrease in Total State Revenue of \$3.6 million (\$60.5 million x 6 percent).

**DOR** notes that because there may be members of the military that qualify for this deduction that are not included in the DOD data, (i.e. soldiers entering or leaving the military and soldiers stationed outside of Missouri whose spouse continues to reside in Missouri) the reduction to Total State Revenue may exceed \$3.6 million.

**DOR** assumes the proposal will require two (2) Revenue Processing Technicians I (\$26,652) and two (2) Tax Collection Technicians (\$26,652) for error corrections and correspondence in processing individual income tax returns. Each technician requires CARES equipment and license. The assumed cost for the four (4) technicians is \$175,7116 in FY 2017, \$181,985 in FY 2018 and \$183,470 in 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.

**DOR** officials also provided an estimate of the IT cost to implement the proposal of \$37,746 based on 503.28 hours of programming at the current state contract rate of \$75 per hour for IT Contractor hours to make changes to DOR systems.

In response to a similar proposal (SB 814, 2016) officials from the **Department of Public Safety - Missouri National Guard (MNG)** stated 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

ASSUMPTION (continued)

time constraints, Oversight needed to prepare this fiscal note.

**Oversight** will use the DOR calculation in the fiscal note which shows estimated Total State Revenue and General Revenue could be reduced in excess of \$3.6 million.

In response to a similar proposal , 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** did not respond to Oversight’s request for fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
<b>GENERAL REVENUE</b>			
<u>Costs - DOR - programming changes</u>	(\$37,746)	\$0	\$0
<u>Revenue Reduction - DOR -</u> Income tax deduction for income earned on active military duty	<u>(Could exceed</u> <u>(\$3,000,000)</u>	<u>(Could exceed</u> <u>(\$3,600,000)</u>	<u>(Could exceed</u> <u>(\$3,600,000)</u>
<b>ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND</b>	<b><u>(Could exceed</u></b> <b><u>(\$3,037,746)</u></b>	<b><u>(Could exceed</u></b> <b><u>\$3,600,000)</u></b>	<b><u>(Could exceed</u></b> <b><u>\$3,600,000)</u></b>
<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  
February 5, 2016

Ross Strobe  
Assistant Director  
February 5, 2016