

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0458-02
Bill No.: SB 144
Subject: Taxation and Revenue - Income; Veterans
Type: Original
Date: January 25, 2017

Bill Summary: This proposal would allow members of the National Guard and reserve components of the armed forces to deduct military income from their Missouri adjusted gross income.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2024)
General Revenue	(\$65,426)	\$0	(\$5,847,600)	(\$29,238,000)
Total Estimated Net Effect on General Revenue	(\$65,426)	\$0	(\$5,847,600)	(\$29,238,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2024)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2024)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2018	FY 2019	FY 2020	Fully Implemented (FY 2024)
Total Estimated Net Effect on FTE	0	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 2018	FY 2019	FY 2020	Fully Implemented (FY 2024)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would exempt military pay for National Guard and reserve components of the armed forces from state income tax. The exemption would be phased in over 5 years, starting with tax year 2019, in 20% increments.

BAP officials stated that the Missouri National Guard provided estimated total pay for Missouri National Guard soldiers of \$416.0 million in 2013, \$420.2 million in 2014, and \$371.9 million in 2015, for an average total pay of \$402.7 million.

BAP officials also stated that based on other information from the Missouri National Guard, the total average traditional pay for National Guard soldiers is \$126.9 million. BAP officials assumed that National Guard and other armed forces reserve members are paid similar salaries of approximately \$11,000 per year. In 2015, there were 7,820 armed forces reserve soldiers stationed in Missouri. Therefore, BAP officials estimate that armed forces reserve soldiers earned a total of \$85.1 million in Missouri during 2015.

Based on the above information, BAP officials estimated that total military income of \$487.8 million would become exempt from Missouri income tax if this proposal is implemented. Since income tax exemptions do not reduce Total State Revenues (TSR) on a dollar for dollar basis, BAP estimates that this proposal would reduce TSR by \$29.3 million per year once fully implemented.

Table 1 shows the estimated loss to TSR by tax year.

Table 1: Impact by Tax Year

Tax Year	% Income Exempt	Loss to GR
2019	20%	5.9
2020	40%	11.7
2021	60%	17.6
2022	80%	23.4
2023	100%	29.3

figures in \$M

ASSUMPTION (continued)

Table 2 shows the estimated loss to TSR by state fiscal year.

Table 2: Impact by Fiscal Year

Fiscal Year	Loss to GR
FY 2019	2.9
FY 2020	8.8
FY 2021	14.6
FY 2022	20.5
FY 2023	26.3
FY 2024	29.3

figures in \$M

Officials from the **Department of Revenue (DOR)** assume this proposal would allow for a deduction from Missouri adjusted gross income for salary or compensation in any form earned as a member of the National Guard or reserve components of the armed forces. DOR officials estimated a negative impact on Total State Revenue of \$29.2 million per year when fully implemented.

Beginning January 1, 2019, the proposal would authorize a 20 percent deduction from Missouri adjusted gross income for salary or compensation in any form earned as a member of the National Guard or reserve components of the armed forces. Then, each year thereafter, the deduction would increase by 20 percent until 100 percent of the military compensation is deductible.

DOR officials determined there are approximately 19,500 Missouri residents that are part of the military reserve forces, 11,700 whom serve in the National Guard and 7,800 whom serve in the reserves. According to the Missouri National Guard Annual Reports for the last three years the average total pay of Missouri guardsman was \$402.7 million, DOR officials estimate average military reserve pay of \$126.9 million under the assumption that reservists are compensated in a similar fashion as the National Guard's traditional pay only.

ASSUMPTION (continued)

DOR officials provided the following table of National Guard pay.

Year	National Guard Total Pay	National Guard Traditional Pay	Reserve Pay
2013	\$416,000,000	\$133,800,000	\$0
2014	\$420,200,000	\$127,600,000	\$0
2015	\$371,900,000	\$119,400,000	\$0
Average	\$402,700,000	\$126,900,000	\$84,600,000
Members	11,700	11,700	7,800
Average Pay	\$34,419	\$10,846	\$10,846

DOR officials also provided the following table of expected fiscal impact from the proposal.

Fiscal Year	Percent exempt	Income exempted	Revenue Impact
2019	20	\$97,460,000	\$2,923,800
2020	40	\$194,920,000	\$8,771,400
2021	60	\$292,380,000	\$14,619,000
2022	80	\$389,840,000	\$20,466,000
2023	100	\$487,300,000	\$26,314,200
2024	100	\$487,300,000	\$29,238,000

Administrative Impact:

DOR officials assume Personal Tax would require two additional Revenue Processing Technicians I (Range 10, Step L) for every 19,000 error corrections and for 2,400 pieces of correspondence.

ASSUMPTION (continued)

In addition, DOR officials assume Collections and Tax Assistance would require two additional Tax Collection Technicians I (Range 10, Step L); one for every additional 15,000 contacts on the delinquent tax line and one for every 15,000 additional contacts on the non-delinquent tax line. Each technician would require CARES equipment and license.

Finally, DOR officials assume that implementing this proposal would result in an additional funding requirement of \$65,426 for the Integrated Tax System.

In total, the DOR estimate of administrative cost to implement this proposal including four additional employees and the related benefits, equipment, and expense totaled \$184,952 for FY 2018, \$188,336 for FY 2019, and \$189,878 for FY 2020.

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 also 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 costs 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.

Officials from the **University of Missouri - Economic and Policy Analysis Research Center** stated they were unable to obtain the specific military pay information needed to prepare an estimate of the fiscal impact of this proposal.

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

ASSUMPTION (continued)

Officials from the **Department of Public Safety, Missouri National Guard (MONG)**, provided an estimate of annual Missouri National Guard pay of \$346,032,561 per year.

Oversight will use the estimate of military pay that this proposal would exempt from state income tax provided by the Department of Revenue (DOR) and the Office of Administration - Division of Budget and Planning (BAP). Oversight has discussed the amount of National Guard and military reserve pay which would be exempted from tax under this proposal with officials from BAP and MONG; we were told the difference between the DOR/BAP estimate of pay to be excluded and the MONG estimate is that military reserve pay was not included in the MONG estimate. We also verified with BAP officials that the military reserve pay included in their estimate did not include active duty pay, which would already be exempt from income tax under SB 814 (2016).

Oversight notes that DOR and BAP estimates of revenue reduction reflect part of the revenue reduction in the year the exemption becomes effective and the balance in the following year, when returns would be filed including that exemption. Oversight is aware that some filers would reduce their payroll withholding or estimated tax payments in anticipation of an income tax reduction but will assume for fiscal note purposes the revenue reductions would be reflected in the fiscal year in which the returns are filed.

Total military income exempted	\$487,300,000
Total revenue reduction at 6%	\$29,238,000

Calendar year	Fiscal year	Percent exempted	Revenue reduction
2019	2020	20	\$5,847,600
2020	2021	40	\$11,695,200
2021	2022	60	\$17,543,800
2022	2023	80	\$23,390,400
2023	2024	100	\$29,238,000

<u>FISCAL IMPACT - State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020	Fully Implemented (FY 2024)
GENERAL REVENUE				
<u>Costs - DOR - programming changes</u>	(\$65,426)	\$0	\$0	\$0
<u>Revenue Reduction - Income tax exemption for military income earned by members of the National Guard and armed forces reserve components.</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$5,847,600)</u>	<u>(\$29,238,000)</u>
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	<u>(\$65,426)</u>	<u>\$0</u>	<u>(\$5,847,600)</u>	<u>(\$29,238,000)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020	Fully Implemented (FY 2024)
	<u>\$0</u>	<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.

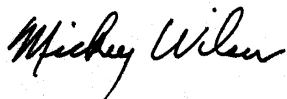
FISCAL DESCRIPTION

The proposed legislation would allow members of the National Guard and reserve components of the armed forces to deduct military income 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 the Secretary of State
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Public Safety
 Missouri National Guard
Department of Revenue
University of Missouri
 Economic and Policy Analysis Research Center



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January 25, 2017

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