

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0060S.01I  
 Bill No.: #SB 31  
 Subject: Taxation and Revenue - Income; Law Enforcement Officers and Agencies  
 Type: #Corrected  
 Date: January 10, 2023

#Removed extra Bill number reference (page 1).

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Bill Summary: This proposal allows an income tax deduction for certain law enforcement officers.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2028)
General Revenue	\$0	(\$17,002,595)	(\$32,974,730)	(\$61,827,620)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>(\$17,002,595)</b>	<b>(\$32,974,730)</b>	<b>(\$61,827,620)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2028)
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>				
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>Fully Implemented (FY 2028)</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</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 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>Fully Implemented (FY 2028)</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0 FTE</b>	<b>0 FTE</b>	<b>0 FTE</b>	<b>0 FTE</b>

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>				
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>Fully Implemented (FY 2028)</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**FISCAL ANALYSIS**

**ASSUMPTION**

**Section 143.1405 Income Tax Deduction for Law Enforcement Officers**

Officials from the **Department of Revenue (DOR)** note for all tax years beginning on or after January 1, 2024, a member of the Missouri Highway Patrol and peace officers may deduct from their taxpayer's Missouri adjusted gross income a portion of the salary (up to \$100,000) they receive for serving as a peace officer. The total amount eligible for the deduction is 25% in calendar year 2024, 50% in calendar year 2025, 75% in calendar year 2026 and 100% of their income in calendar year 2027 and each year thereafter.

According to the U.S. Bureau of Labor Statistics, the state has the following number of officers that could potentially qualify for this deduction and their average salary is:

Occupation (SOC code)	# Employment	Annual mean wage	SALARY
First-Line Supervisors of Correctional Officers(331011)	1,120	\$43,260	\$48,451,200
First-Line Supervisors of Police and Detectives(331012)	2,240	\$79,550	\$178,192,000
First-Line Supervisors of Protective Service Workers, All Other(331099)	240	\$62,910	\$15,098,400
Fire Inspectors and Investigators(332021)	110	\$66,520	\$7,317,200
Bailiffs	230	\$38,730	\$8,907,900
Correctional Officers and Jailers(333012)	5,990	\$34,550	\$206,954,500
Detectives and Criminal Investigators(333021)	1,840	\$72,010	\$132,498,400
Fish and Game Wardens(333031)	180	\$48,500	\$8,730,000
Parking Enforcement Workers	60	\$45,710	\$2,742,600
Police and Sheriff's Patrol Officers(333051)	13,410	\$56,610	\$759,140,100
Gaming Surveillance Officers and Gambling Investigators(339031)	180	\$32,860	\$5,914,800
<b>TOTALS</b>	<b>25,600</b>		<b>\$1,373,947,100</b>

The Department notes that while this proposal begins in January 2024, it will not impact state revenue until January 2025 when the first tax returns are filed claiming the deduction. Additionally, deductions do not reduce revenue on a dollar for dollar basis, but rather in proportion to the top tax rate applied. SB 3 (2022), lowered the individual income tax rate to 4.95% starting January 1, 2023 and additionally is projected to lower the current tax rate down to

4.5% over a period of years based on revenue growth. Therefore, using the U.S. Bureau of Labor Statistics numbers and salary estimates, DOR calculated the estimated impacts.

	TY 2024	TY 2025	TY 2026	TY 2027
Deduction %	0.25	0.5	0.75	1
Tax Rate 4.95%	\$17,002,595	\$34,005,191	\$51,007,786	\$68,010,381

Since DOR does not know when the additional individual income tax rate reductions will occur, DOR will show the loss to general revenue as:

Tax Rate	2024 (FY25)	2025 (FY26)	2026 (FY27)	2027 (FY28)	2028 (FY 29)
	25%	50%	75%	100%	100%
4.95%	(\$17,002,595)	(\$34,005,191)	(\$51,007,786)	(\$68,010,381)	(\$68,010,381)
4.80%	(\$16,487,365)	(\$32,974,730)	(\$49,462,096)	(\$65,949,461)	(\$65,949,461)
4.70%		(\$32,287,757)	(\$48,431,635)	(\$64,575,514)	(\$64,575,514)
4.60%			(\$47,401,175)	(\$63,201,567)	(\$63,201,567)
4.50%				(\$61,827,620)	(\$61,827,620)

This would be a new deduction from Missouri adjusted gross income to determine Missouri taxable income, so it would require a new line on the Form MO-1040, updates to the website and changes to the individual income tax computer system. This is estimated to cost \$7,193. While the Department of Revenue assumes they could handle this deduction with existing resources, should the number of errors or correspondence reach the levels to justify an FTE, DOR would seek that FTE through the appropriation process.

- 1 FTE Associate Customer Service Rep for every 14,700 errors created
- 1 FTE Associate Customer Service Rep for every 5,700 pieces of correspondence generated

**Oversight** assumes the Department of Revenue is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the costs for computer upgrades and the temporary employee costs related to this proposal. Given the number of potential qualifiers of this deduction (25,600), Oversight assumes DOR can absorb the administrative impact of this proposal.

Officials from the **Office of Administration - Budget and Planning (B&P)** note beginning with tax year 2024, “members of the patrol”, and “peace officers” shall be granted an income tax deduction for the salary or compensation as a member of the patrol, peace officer, or law enforcement. B&P notes that members of the patrol include the State Highway Patrol. Peace officers include sheriffs, police officers, and other peace officers.

The deduction granted is on the first \$100,000 of service related income and the deduction percentage shall increase by 25% from tax year 2024 through tax year 2027. Beginning with tax

year 2027, up to \$100,000 in compensation for a peace officer shall be exempt from Missouri income tax. B&P notes that while the deduction will begin for tax year 2024, the impact to TSR and GR will not occur until taxpayers file their annual return in FY25.

Based on data published by the Bureau of Labor Statistics, during 2022 there were approximately 25,600 individuals who may qualify for this deduction with an average annual salary of \$52,837. Therefore, B&P estimates that up to \$1,373,947,100 in individual income may qualify for this deduction. However, deductions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from SB 3 (2022).

Table 1: Estimated Revenue Loss by Fiscal Year

Tax Rate	Tax Year (Fiscal Year)				
	2024 (FY25)	2025 (FY26)	2026 (FY27)	2027 (FY 28)	2028 (FY29)
4.95%	25%	50%	75%	100%	100%
4.95%	(\$17,002,595)	(\$34,005,191)	(\$51,007,786)	(\$68,010,381)	(\$68,010,381)
4.80%	(\$16,487,365)	(\$32,974,730)	(\$49,462,096)	(\$65,949,461)	(\$65,949,461)
4.70%		(\$32,287,757)	(\$48,431,635)	(\$64,575,514)	(\$64,575,514)
4.60%			(\$47,401,175)	(\$63,201,567)	(\$63,201,567)
4.50%				(\$61,827,620)	(\$61,827,620)

B&P estimates that this proposal may reduce TSR and GR by \$17,002,595 (top tax rate 4.95%) or by \$16,487,365 (top rate 4.8%) in FY25. Once this proposal and SB 3 (2022) have fully phased-in, this proposal may reduce TSR and GR by up to \$61,827,620 annually.

**Oversight** will show B&P and DOR’s projected fiscal estimated impacts of this proposal throughout the implementation of the tax rate reductions from SB 509 (2014), SB 153 (2021), and SB 3 (2022) to show the maximum low and high impact of the proposal.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

**Oversight** assumes JCAR will be able to administer any rules from this proposed legislation with existing resources.

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year’s legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet

these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposed legislation. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY 2028)
<b>GENERAL REVENUE FUND</b>				
<u>Revenue Loss - §143.1405 - Law Enforcement Income Tax Deduction p. 3-6</u>	\$0	(\$17,002,595)	(\$32,974,730)	(\$61,827,620)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b>\$0</b>	<b>(\$17,002,595)</b>	<b>(\$32,974,730)</b>	<b>(\$61,827,620)</b>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY 2028)
	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

#### FISCAL IMPACT – Small Business

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

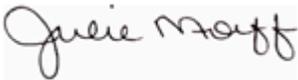
#### FISCAL DESCRIPTION

The proposed legislation allows an income tax deduction for certain law enforcement officers.

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

Department of Revenue  
Office of Administration - Budget and Planning  
Office of the Secretary of State  
Joint Committee on Administrative Rules



Julie Morff  
Director  
January 10, 2023



Ross Strobe  
Assistant Director  
January 10, 2023