

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 2044S.04P  
 Bill No.: Perfected SS for SB 540  
 Subject: Taxation and Revenue - Income; Military Affairs  
 Type: Original  
 Date: April 13, 2023

Bill Summary: This proposal modifies provisions relating to members of the armed forces.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue	(Unknown)	(Unknown)	(Unknown)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

\***Oversight** notes that based on information provided by the DOR, the majority of military signing bonuses included in this proposal should be included under the existing income tax deductions. Therefore, Oversight assumes the fiscal impact to the General Revenue Fund would not reach the \$250,000 threshold.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Veterans Commission Capital Improvement Trust Fund (0304)	Less than (\$73,000)	Less than (\$73,000)	Less than (\$73,000)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>Less than (\$73,000)</b>	<b>Less than (\$73,000)</b>	<b>Less than (\$73,000)</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>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 2024</b>	<b>FY 2025</b>	<b>FY 2026</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 \$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>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Due to time constraints, **Oversight** was unable to receive some agency responses in a timely manner and performed limited analysis. Oversight has presented this fiscal note on the best current information that we have or on information regarding a similar bill(s). Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

### Section 43.212 – Medallion Program

In response to similar legislation from 2023 (SB 611), officials from the **Missouri National Guard (MNG)** stated with an estimated 73,000 active and registered veterans, SB 611 would have an approximate \$1,000 - \$1,095,000 fiscal impact to the Veterans Recognition program, which is funded by the Veterans Commission Capital Improvement Trust Fund, depending on the number of approved applicants. The estimated cost per medal and postage is \$15.

Listed below are the number of medals awarded to the following programs:

- 2000 – WWII medals awarded 18,554 since inception
- 2003 – Korean War medals awarded 31,524 since inception
- 2006 – Vietnam War medals awarded 47,038 since inception
- 2019 – Operation Desert Storm/Desert Shield and Operation Iraqi Freedom/New Dawn medals awarded 931 since inception

**Oversight** contacted the MNG to inquire how many personnel deployed to Operation Enduring Freedom, Operation Freedom’s Sentinel, and Operation Allies Refuge Program. However, Oversight has not received that information yet. Therefore, using MNG’s estimate of 73,000 current Missouri veterans, Oversight will assume approximately 40 percent of those served during this timeframe (10/7/2001 – 8/30/2021). Oversight also assumes approximately half or 14,600 ( $73,000 * .40 * .50$ ) service members and registered veterans will apply for the medal.  $14,600 * \$15 = \$219,000$

Based on the implementation of other similar programs, Oversight will reflect this cost spread over the three years ( $\$219,000 / 3 = \$73,000$ ) of the fiscal note to the Veterans Commission Capital Improvement Trust Fund. Oversight notes the ending balance in the Veterans Commission Capital Improvement Trust Fund (0304) as of March 31, 2023, is \$31,649,894.

In response to similar legislation from 2023 (SB 611), officials from the **Office of Administration** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note.

In response to similar legislation from 2023 (HB 836), officials from the **Department of Public Safety – Missouri Veterans Commission** deferred to the **Missouri National Guard** for the potential fiscal impact of this proposal.

### **Sections 143.174 & 143.175 Military Signing Bonus Income Tax Deduction**

Officials from the **Department of Revenue (DOR)** note members of the military can deduct 100% of the income they receive as salary or compensation if that income is taxable at the federal level from the calculation of their Missouri adjusted gross income. This is the military income deduction. Additionally, they can receive the deduction for income received from certain training programs. This proposal is adding to this Missouri military income deduction income they receive from signing bonuses.

The Department found that the military does issue signing bonuses to soldiers based on their branch of service, length of enlistment and specific job specialties. The more specialized the job the more likely to be issued a signing bonus. DOR also found that signing bonuses are often paid out over a number of years rather than a single lump sum.

The federal government designates certain military pay and benefits as taxable. Information found by the Department, indicates that all income received by members of the military serving in a combat zones is tax free at the federal level, which includes their signing bonuses. Additionally, depending on their rank a portion of non-combat pay may be tax exempt.

The Department notes that while Missouri is home to Whiteman Air Force Base, Fort Leonard Wood and Fort Crowder DOR is unable to determine how many of the soldiers stationed there are eligible for signing bonuses. DOR is also not able to determine how many of them actually file returns as a Missouri resident.

The Department is unable to locate any single source that can tell how much is paid to soldiers filing Missouri individual income tax returns and the amount of signing bonuses they receive that would be taxable. DOR assumes that should a soldier filing a Missouri return receive a taxable signing bonus they would qualify for this deduction and that income would be excluded from tax per this proposal. DOR notes this proposal could result in an unknown loss to general revenue but assume it would be minimal.

In response to similar legislation from 2023 (SB 611), officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal clarifies that military signing bonuses are to be included within the definition of “compensation” for both active duty and, reserve duty, and National Guard income tax exemptions. B&P further notes that based on information provided by DOR, the majority of such bonuses should already be included under the existing income tax deductions.

Therefore, if this proposal extends the deductions to additional bonuses not already excluded, this proposal could result in an unknown, likely minimal, loss to TSR and GR.

In response to similar legislation from 2023 (SB 611), officials from the **Missouri National Guard** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary.

Officials from the **Department of Public Safety – Veterans Commission** assume the proposal will have no fiscal impact on their organization.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
<b>GENERAL REVENUE</b>			
<u>Revenue Reduction</u> - §143.174 & §143.175 - Military Signing Bonus Income Tax Deduction p. (3-4)	(Unknown)	(Unknown)	(Unknown)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>
<b>VETERANS COMMISSION CAPITAL IMPROVEMENTS TRUST FUND (0304)</b>			
<u>Cost</u> – MNG (§43.212) New medallion program p. (4-5)	<u>Less than (\$73,000)</u>	<u>Less than (\$73,000)</u>	<u>Less than (\$73,000)</u>
<b>ESTIMATED NET EFFECT TO THE VETERANS COMMISSION CAPITAL IMPROVEMENTS TRUST FUND</b>	<b><u>Less than (\$73,000)</u></b>	<b><u>Less than (\$73,000)</u></b>	<b><u>Less than (\$73,000)</u></b>

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

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

This act modifies provisions relating to members of the armed forces.

ARMED FORCES MEDALLION PROGRAM

This act establishes a new medallion program, "Operation Enduring Freedom, Operation Freedom's Sentinel, and Operation Allies Refuge Program". Under the act, any veteran who served on active duty during certain dates, is a legal resident of this state or was a legal resident at the time of discharge from military service, or was a Missouri National Guard member regardless of residency, is eligible for a medal of appreciation for service. (Section 42.312)

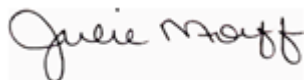
ARMED FORCES INCOME TAX DEDUCTION

Current law authorizes an income tax deduction for active and reserve members of the Armed Forces for a percentage of such taxpayer's income received as salary or compensation as a member of the Armed Forces. This act provides that the term "salary or compensation" shall include any signing bonus. (Sections 143.174 and 143.175)

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  
Missouri National Guard  
(DPS-MVC) Public Safety - Veterans Commission



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April 13, 2023



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