

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4383S.02I
 Bill No.: SB 828
 Subject: Taxation and Revenue - Income; Law Enforcement Officers and Agencies
 Type: Original
 Date: January 2, 2024

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

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | | |
|--|------------|-----------------------|-----------------------|-----------------------------|
| FUND AFFECTED | FY 2025 | FY 2026 | FY 2027 | Fully Implemented (FY 2029) |
| General Revenue | \$0 | (\$16,858,842) | (\$33,000,287) | (\$64,565,780) |
| Total Estimated Net Effect on General Revenue | \$0 | (\$16,858,842) | (\$33,000,287) | (\$64,565,780) |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | | |
|--|------------|------------|------------|-----------------------------|
| FUND AFFECTED | FY 2025 | FY 2026 | FY 2027 | Fully Implemented (FY 2029) |
| | | | | |
| Total Estimated Net Effect on Other State Funds | \$0 | \$0 | \$0 | \$0 |

Numbers within parentheses: () indicate costs or losses.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | | |
|---|----------------|----------------|----------------|------------------------------------|
| FUND AFFECTED | FY 2025 | FY 2026 | FY 2027 | Fully Implemented (FY 2029) |
| | | | | |
| | | | | |
| 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 2025 | FY 2026 | FY 2027 | Fully Implemented (FY 2029) |
| | | | | |
| | | | | |
| Total Estimated Net Effect on FTE | 0 | 0 | 0 | 0 |

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.

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | | |
|--|----------------|----------------|----------------|------------------------------------|
| FUND AFFECTED | FY 2025 | FY 2026 | FY 2027 | Fully Implemented (FY 2029) |
| | | | | |
| Local Government | \$0 | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

Section 143.1405 Income Tax Deduction for Law Enforcement

Officials from the **Office of Administration - Budget and Planning (B&P)** note beginning with tax year 2025, “members of the patrol”, “peace officers”, and “federal law enforcement 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 this proposal does not include retirement income.

Members of the patrol include the State Highway Patrol. Peace officers include sheriffs, police officers, and other peace officers. Federal law enforcement officer includes, but is not limited to, FBI agents, Secret Service / U.S. Treasury agents, Federal Reserve agents, Amtrak Police Officers, and U.S. Marshalls.

The deduction granted is on the first \$100,000 of service-related income and the deduction percentage shall increase by 25% from tax year 2025 through tax year 2028. Beginning with tax year 2028, 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 2025, the impact to TSR and GR will not occur until taxpayers file their annual return in FY26.

Based on data published by the Bureau of Labor Statistics, during 2022 there were approximately 26,840 individuals who may qualify for this deduction with an average annual salary of \$51,678. Therefore, B&P estimates that up to \$1,434,795,100 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) | | | |
|----------|------------------------|----------------|----------------|----------------|
| | 2025 (FY26) | 2026 (FY27) | 2027 (FY28) | 2028 (FY29) |
| 25% | | | | |
| 4.8% | (\$17,217,541) | (\$34,435,082) | (\$51,652,624) | (\$68,870,165) |
| 4.7% | (\$16,858,842) | (\$33,717,685) | (\$50,576,527) | (\$67,435,370) |
| 4.6% | | (\$33,000,287) | (\$49,500,431) | (\$66,000,575) |
| 4.5% | | | (\$48,424,335) | (\$64,565,780) |

B&P estimates that this proposal may reduce TSR and GR by \$17,217,541 (top tax rate 4.8%) or by \$16,858,842 (top rate 4.7%) in FY26. Once this proposal and SB 3 (2022) have fully phased-in, this proposal may reduce TSR and GR by up to \$64,565,780 annually.

Officials from the **Department of Revenue (DOR)** note for all tax years beginning on or after January 1, 2025, 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 2025, 50% in calendar year 2026, 75% in calendar year 2027 and 100% of their income in calendar year 2028 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 |
|---|---------------|------------------|------------------------|
| Probation Officers | 2,420 | 42,190 | \$102,099,800 |
| First-Line Supervisors of Correctional Officers(331011) | 1,150 | \$45,310 | \$52,106,500 |
| First-Line Supervisors of Police and Detectives(331012) | 3,210 | \$76,000 | \$243,960,000 |
| First-Line Supervisors of Protective Service Workers, All Other(331099) | 220 | \$59,790 | \$13,153,800 |
| Fire Inspectors and Investigators(332021) | 170 | \$67,790 | \$11,524,300 |
| Bailiffs | 200 | \$35,500 | \$7,100,000 |
| Correctional Officers and Jailers(333012) | 5,280 | \$38,480 | \$203,174,400 |
| Detectives and Criminal Investigators(333021) | 1,460 | \$78,060 | \$113,967,600 |
| Fish and Game Wardens(333031) | 180 | \$50,140 | \$9,025,200 |
| Parking Enforcement Workers | 50 | \$40,130 | \$2,006,500 |
| Police and Sheriff's Patrol Officers(333051) | 12,300 | \$54,490 | \$670,227,000 |
| Gaming Surveillance Officers and Gambling Investigators(339031) | 200 | \$32,250 | \$6,450,000 |
| TOTALS | 26,840 | | \$1,434,795,100 |

The Department notes that while this proposal begins in January 2025, it will not impact state revenue until January 2026 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 4.8% starting January 1, 2024, 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 2025 | TY 2026 | TY 2027 | TY 2028 |
|---------------|--------------|--------------|--------------|--------------|
| Deduction % | 25% | 50% | 75% | 100% |
| Tax Rate 4.8% | \$17,217,541 | \$34,435,082 | \$51,652,624 | \$68,870,165 |

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

| Tax Rate | 2025 (FY26) | 2026 (FY27) | 2027 (FY28) | 2028 (FY29) |
|----------|----------------|----------------|----------------|----------------|
| | 25% | 50% | 75% | 100% |
| 4.80% | (\$17,217,541) | (\$34,435,082) | (\$51,652,624) | (\$68,870,165) |
| 4.70% | (\$16,858,842) | (\$33,717,685) | (\$50,576,527) | (\$67,435,370) |
| 4.60% | | (\$33,000,287) | (\$49,500,431) | (\$66,000,575) |
| 4.50% | | | (\$48,424,335) | (\$64,565,780) |

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 (\$7,138), updates to DOR’s website and changes to the individual income tax computer system (\$1,785). This is estimated to cost \$8,923. While the Department assumes they could handle this deduction with existing resources, should the number of errors or correspondence reach the levels to justify an FTE or multiple bills pass increasing the errors and correspondence, DOR would seek that FTE through the appropriation process.

- 1 FTE Associate Customer Service Rep for every 14,700 errors created at a salary of \$35,880.
- 1 FTE Associate Customer Service Rep for every 5,700 pieces of correspondence generated at a salary of \$35,8

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 (26,840), Oversight assumes DOR can absorb the administrative impact of this proposal.

Oversight notes officials from the Department of Public Safety - Peace Officer Standards and Training (POST) stated the following as of December 2023:

| | |
|---------------|--|
| 14,304 | Peace officers licensed and commissioned |
| 1,658 | Peace officers on reserve |
| 7,787 | Peace officers licensed but not commissioned |
| 23,749 | Total Peace Officers |

Oversight notes for the purpose of the fiscal note, Oversight assumes a top income tax rate of 4.8% in tax year 2024 (FY 2025) and future income tax rate reductions from SB 3 (2022) will trigger consecutively (4.7% in FY 2026, 4.6% in FY 2027, and 4.5% in FY 2028+).

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.

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.

| <u>FISCAL IMPACT – State Government</u> | FY 2025 (10 Mo.) | FY 2026 (25%) | FY 2027 (50%) | Fully Implemented (FY 2029) (100%) |
|---|---------------------|-----------------------|-----------------------|--|
| GENERAL REVENUE FUND | | | | |
| <u>Revenue Reduction - §143.1405 - Income Tax Deduction for Law Enforcement</u> | \$0 | (\$16,858,842) | (\$33,000,287) | (\$64,565,780) |
| ESTIMATED NET EFFECT ON GENERAL REVENUE | \$0 | (\$16,858,842) | (\$33,000,287) | (\$64,565,780) |

| <u>FISCAL IMPACT – Local Government</u> | FY 2025 (10 Mo.) | FY 2026 | FY 2027 | Fully Implemented (FY 2029) |
|---|---------------------|------------|------------|--------------------------------|
| | <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

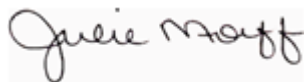
This act establishes the "Back the Blue Act".

For all tax years beginning on or after January 1, 2025, this act allows members of the State Highway Patrol, peace officers, and federal law enforcement officers, as such terms are defined in the act, to deduct a percentage of such taxpayer's income derived from such employment from the taxpayer's Missouri adjusted gross income. The percentage to be deducted shall be 25% for the 2025 tax year, 50% for the 2026 tax year, 75% for the 2027 tax year, and 100% for the 2028 and all subsequent tax years.

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
Office of the Secretary of State
Joint Committee on Administrative Rules



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Director
January 2, 2024



Ross Strobe
Assistant Director
January 2, 2024