

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0428S.01I
 Bill No.: SB 59
 Subject: Taxation and Revenue - Income; Veterans
 Type: Original
 Date: January 17, 2025

Bill Summary: This proposal authorizes an income tax deduction for certain survivor benefits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue*	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue	(Unknown)	(Unknown)	(Unknown)

*Oversight assumes the fiscal impact could exceed the \$250,000 threshold.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Total Estimated Net Effect on FTE	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 2026	FY 2027	FY 2028
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 143.121 - Income Tax Deduction for Certain Survivor Benefits

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would exempt 100% of military pension survivor benefits from Missouri income tax beginning with tax year 2025. B&P was unable to find any information on the number or amount of such payments. Therefore, B&P estimates that this proposal could result in an unknown, may be significant, loss to TSR and GR beginning FY26 (when tax year 2025 returns are filed).

Officials from the **Department of Revenue (DOR)** note this proposal would extend the subtraction that members of the military receive for their retirement benefits. Their retirement benefits are allowed to be subtracted from their Missouri Adjusted Gross Income (MAGI) when calculating taxable income. This proposal would expand the exemption to survivor benefits derived from the retirement benefits.

DOR is unable to determine how much is paid in survivor benefits for calculating this subtraction. This would result in an unknown negative impact to general revenue. It is possible this could exceed \$250,000 annually. This will require the Department to add another deduction to the MO-1040.

That would require us to add a line to the form (\$2,200), update the department's website and update DOR's computer programming (\$1,832).

Oversight notes the DOR requests a one-time cost of \$4,032 for website income-tax changes and updates to comply with the proposed language; however, Oversight notes that DOR receives appropriation for routine website updates and will not show those costs in the fiscal note.

Oversight notes according to the US Department of Defense [website](#), the Survivor Benefit Plan (SBP) allows a retiree to ensure, after death, a continuous lifetime annuity for their dependents. The annuity, which is based on a percentage of retired pay, is called SBP and is paid to an eligible beneficiary. The maximum SBP annuity for a spouse is based on 55 percent of the member's retired pay.

According to the [Statistical Report On The Military Retirement System](#) 2022 (the most recent year available), there were 39,608 retired members of the Department Of Defense in Missouri with monthly retired payments totaling \$82,444,000.

And there are 5,951 survivors in Missouri collectively receiving \$6,552,000 in monthly payments (p.69). Annualized this equates to \$78,624,000 in potential exemptions. Oversight notes the fiscal impact of the proposed subtraction depends upon the top individual income tax rate applied.

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

Fiscal Impact			
	TY 2025 (FY 2026)	TY 2026 (FY 2027)	TY 2027 (FY 2028)
	4.7%	4.6%	4.5%
up to...	(\$3,695,328)	(\$3,616,704)	(\$3,538,080)

Oversight notes both DOR and B&P assume this proposal will have an unknown negative fiscal impact on general revenue. Oversight does not have any information to the contrary. Therefore, Oversight will reflect an unknown negative fiscal impact on general revenue beginning in FY2026. Oversight assumes the fiscal impact could be significant.

<u>FISCAL IMPACT – State Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028
GENERAL REVENUE FUND			
<u>Revenue Reduction - §143.121 - Income Tax Subtraction for Certain Survivor Benefits</u>	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(Unknown)	(Unknown)	(Unknown)

<u>FISCAL IMPACT – Local Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028
	\$0	\$0	\$0

FISCAL IMPACT – Small Business

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

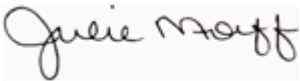
FISCAL DESCRIPTION

Current law authorizes an income tax deduction for retirement benefits received by a taxpayer as a result of service in the Armed Forces of the United States. This act also allows for the deduction of any survivor benefits derived from such service.

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



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January 17, 2025



Jessica Harris
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January 17, 2025