COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0428S.02P
Bill No.: Perfected SB 59
Subject: Taxation and Revenue - Income; Veterans
Type: Original
Date: February 6, 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	Could exceed ($1,825,811 to $2,463,883)	Could exceed ($1,887,020 to $2,511,516)	Could exceed ($1,846,060 to $2,456,980)
Total Estimated Net Effect on General Revenue	**Could exceed ($1,825,811 to $2,463,883)**	**Could exceed ($1,887,020 to $2,511,516)**	**Could exceed ($1,846,060 to $2,456,980)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Total Estimated Net Effect on Other 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 All 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 143.1160 SA 3 - Long-Term Dignity Saving Account Income Tax Deduction

Officials from the **Department of Revenue (DOR)** note currently, a taxpayer is entitled to an income tax deduction equal to 100% of the contributions they make to a long-term dignity savings account. The program was created in HB 1682 in 2020 and contained sunset language that stops the program on December 31, 2024.

For informational purposes only, the department is presenting the activity of the program since its inception.

Tax Year	Returns Filed	Deduction Claimed
2021	233	$137,799
2022	264	$664,155
2023	221	$690,168

This proposal would become effective on August 28, 2025, if adopted. The long-term dignity act will have sunset as of December 31, 2024. This proposal, therefore, is attempting to restart the program and provide a revised sunset date of December 31, 2030. DOR notes the language in existing statute (143.1160.6(2)) only allows the program to be extended an additional four years if reauthorized.

DOR notes the restarting of this program will result in additional impact to general revenue starting in FY 2026. DOR notes that deductions do not reduce revenue dollar for dollar but in proportion to the top rate of tax. This deduction would result in a loss of $32,438 annually based on the 4.7% tax rate in tax year 2025.

DOR will show the loss equal to the tax year 2023 loss. Additionally, this will result in additional computer programming costing $1,832.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal extends an existing program; therefore, it will not impact TSR or the calculation under Article X, Section 18(e).

Oversight notes according to an online survey conducted by Genworth Financial, the median annual long-term care costs in Missouri in 2021 were as follows:

In-Home Care	
Homemaker Services	$ 57,200
Home Health Aide	$ 57,200

Community and Assisted Living	
Adult Daycare	$ 22,800
Assisted Living Facility	$ 36,000

Nursing Home Facility	
Semi-Private Room	$ 63,145
Private Room	$ 71,175

Source: https://www.genworth.com/aging-and-you/finances/cost-of-care.html

Oversight notes the cost of long-term care varies across the state. The American Council on Aging shows the average nursing home costs for Missouri in 2021:

Nursing Home Costs by Region – 2021				
Region	**Private Room Daily Cost**	**Private Room Annual Cost**	**Shared Room Daily Cost**	**Shared Room Annual Cost**
Statewide Average	$195	$71,175	$173	$63,145
Cape Girardeau	$198	$72,270	$172	$62,780
Columbia	$191	$69,715	$168	$61,138
Jefferson City	$203	$73,913	$188	$68,438
Joplin	$215	$78,293	$186	$67,890
Kansas City	$260	$94,900	$213	$77,563
Springfield	$201	$73,183	$173	$63,145
St Joseph	$180	$65,518	$165	$60,225
St Louis	$222	$80,848	$185	$67,525
Rest of State	$178	$64,970	$163	$59,495

Source: American Council on Aging, Last updated: March 04, 2022

Oversight notes for the purpose of the 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+).

Oversight notes this is a relatively new program, therefore Oversight will use the deduction amounts from 2023 ($690,168) as the baseline for future amounts claimed. Oversight assumes the actual future impacts could be higher as knowledge of this program spreads; therefore, Oversight will show the impact as could exceed the figures estimated by DOR. Oversight does not anticipate the actual impact will reach the $250,000 threshold.

Section 143.121.3.(12) - Income Tax Deduction for Certain Survivor Benefits

In response to a previous version (SB 59), 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 them to add a line to the form ($2,200), update the department's website and update the department's computer programming ($1,832)

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 these provision(s) 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>Section 143.121.3(14) SA 1 – Income Tax Deduction for Retirement Benefits for First Responders</u>

Officials from the **Department of Revenue (DOR)** note this proposal states for all tax years beginning on or after January 1, 2026, one hundred percent (100%) of any retirement benefits including survivor benefits of a first responder shall be subtracted from Missouri adjusted gross income for determining tax liability. DOR notes that the first responders receive a public pension. Per Section 143.124 their public pension is generally already exempt from taxation.

DOR was unable to find data on the amount of first responders in Missouri and their retirement benefits. DOR was able to pull some information from St. Louis City, Kansas City and LAGERS. Based on the data found, this would exempt $186,427,781. Since much of the retirement benefits are already exempt, DOR assumes only about $2,846,137 is still taxable.

DOR notes that subtractions do not reduce revenue on a dollar-for-dollar basis but based on the top tax rate in effect at the time. Currently 4.7% is the tax year 2025 tax rate.

Table 1: GR Impact - First Responder Pension Subtraction

Tax Rate	Tax Year (Fiscal Year)		
	2025 (FY26)	2026 (FY27)	2027 (FY28)
4.7%	$0	($133,768)	($133,768)
4.6%		($130,922)	($130,922)
4.5%			($128,076)

This subtraction will require an additional line be added to the MO-A form ($2,200), information would need to be added to the department's website and these would need to be added to the individual income tax computer system ($7,327 each). These costs are estimated at $9,527.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this provision would exempt all retirement income received by a taxpayer for first-responder related services. This provision would also exempt all survivor related benefits for first-responders. This income tax exemption shall begin for tax year 2026.

First responders include: state and local law enforcement officers, 911 operators, fire fighters, EMTs, and paramedics.

B&P was unable to find comprehensive data on first responder retirement benefits. B&P was able to find information on qualifying individuals participating in LAGERS, as well as police and fire pension data for St. Louis City and Kansas City. Based on the data found, this provision would exempt over $186,427,781 in pension and survivor benefits starting in tax year 2026. However, B&P notes that under Section 143.124 about 98% of public pensions are already exempt from Missouri income tax. Therefore, this provision could exempt over $2,846,137 in income from taxation.

However, subtractions 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). Consequently, B&P estimates that the educator expense subtraction could reduce TSR and GR by $822,970 in FY26. Once SB 3 (2022) has fully implemented, this provision could reduce TSR and GR by $787,950 annually.

Table 1: GR Impact - First Responder Pension Subtraction

Tax Rate	Tax Year (Fiscal Year)		
	2025 (FY26)	2026 (FY27)	2027 (FY28)
4.7%	$0	($133,768)	($133,768)
4.6%		($130,922)	($130,922)
4.5%			($128,076)

Oversight notes both DOR and B&P assume these provision(s) will have an unknown negative fiscal impact on general revenue. Oversight does not have any information to the contrary. Therefore, Oversight will reflect DOR's estimated impact in the fiscal note.

<u>Section 143.121.3.(14-15) SA 2 - Subtractions from MO Adjusted Gross Income</u>

Officials from the **Department of Revenue (DOR)** note the following:

Educator Subtraction
This proposal states for all tax years beginning on or after January 1, 2025, one hundred percent (100%) of all unreimbursed educator expenses incurred by an eligible educator during the taxable year, not to exceed five hundred dollars, is eligible to be subtracted from a taxpayer's

Missouri adjusted gross income. An eligible educator is defined as one who qualifies under 26 U.S.C. Section 62, which are teachers.

Per the Department of Elementary and Secondary Education there are 70,858 public school teachers in this state. However, this proposal is open to all teachers, not just public-school teachers who have qualifying expenses. The federal government has a similar program in which an eligible teacher can qualify for up to $300 if single and $600 if married filing joint of eligible expenses. The federal deduction is reported on the Schedule 1 of the 1040.

Since this proposal requires that you be eligible for the federal program DOR will use the number of participants at the federal level for this fiscal note. DOR used IRS 2022 data (most recent available) for determining those who qualify under 26 U.S.C. Section 62 program:

Number of Filers: 66,980
Amount: $19,914,000
Average Claimed: $297

This proposal allows for a $500 Missouri deduction while the current average amount claimed on federal tax returns is approximately $297. Using the 66,980 number of federal filers, DOR calculated a high/low range showing the potential revenue impact if all individuals claimed at the $297 current average amount versus all individuals claiming the proposed $500 deduction. DOR notes that this is a deduction and therefore is not a dollar-for-dollar loss.

SB 3 adopted in 2022 allows for the individual income tax rate to reduce from its current 4.7% for tax year 2025 to 4.5% based on certain revenue triggers. DOR will show the impact through the implementation of SB 3. DOR notes this proposal begins January 1, 2025, and the tax returns claiming the deduction would be filed starting in FY 2026. This is estimated to be a loss to General Revenue.

Tax Rate	TY 25 (FY 26)		TY 26 (FY 27)		TY 27 (FY 28)	
	Low	High	Low	High	Low	High
4.7%	($935,958)	($1,574,030)	($935,958)	($1,574,030)	($935,958)	($1,574,030)
4.6%			($916,044)	($1,540,540)	($916,044)	($1,540,540)
4.5%					($896,130)	($1,507,050)

This subtraction will require an additional line be added to the MO-A form ($2,200), information would need to be added to the department’s website and these would need to be added to the individual income tax computer system ($7,327 each). These costs are estimated at $9,527.

First Responder Subtraction
This proposal states for all tax years beginning on or after January 1, 2025, income received as a first responder, not to exceed five hundred dollars, is eligible to be subtracted from a taxpayer’s Missouri adjusted gross income. An eligible first responder is defined in this proposal.

Using information from the Bureau of Labor Statistics, DOR was able to determine there are approximately 35,020 that would qualify for this subtraction. DOR assume that each of them would be eligible for the full $500 in credit. Therefore, the amount of income that can be subtracted is $17,510,000.

SB 3 adopted in 2022 allows for the individual income tax rate to reduce from its current 4.7% for tax year 2025 to 4.5% based on certain revenue triggers. DOR will show the impact through the implementation of SB 3. DOR notes this proposal begins January 1, 2025, and the tax returns claiming the deduction would be filed starting in FY 2026. This is estimated to be a loss to General Revenue.

Tax Rate	TY 25 (FY 26)	TY 26 (FY 27)	TY 27 (FY 28)
4.7%	($822,970)	($822,970)	($822,970)
4.6%		($805,460)	($805,460)
4.5%			($787,950)

Summary
These subtractions will result in a loss to general revenue estimated as follows:

Tax Rate	2025 (FY26)		2026 (FY27)		2027 (FY28)	
	Low	High	Low	High	Low	High
4.7%	($1,758,928)	($2,397,000)	($1,758,928)	($2,397,000)	($1,758,928)	($2,397,000)
4.6%			($1,721,504)	($2,346,000)	($1,721,504)	($2,346,000)
4.5%					($1,684,080)	($2,295,000)

This subtraction will require an additional line be added to the MO-A form ($2,200), information would need to be added to the department’s website and these would need to be added to the individual income tax computer system ($7,327 each). These costs are estimated at $9,527.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would allow certain educators to subtract up to $500 for qualifying expenses. Educators and costs must qualify under the federal teacher expense deduction. B&P notes that the federal deduction is currently limited to $300 per taxpayer.

B&P notes that this subtraction would apply to expenses incurred during tax year 2025. Therefore, B&P anticipates that this proposal could begin impact state revenues during FY26 when tax year 2025 income tax returns are filed.

During tax year 2022, 66,980 educators claimed $19,914,000 subtractions for educator expenses, for an average of $297 per claim. B&P does not have data on teacher expenses beyond what is claimed on their federal income taxes. For the purpose of this fiscal note, B&P will reflect the potential impact as ranging from the current federal claims ($297 per taxpayer) up to the proposed $500 per taxpayer limit.

Therefore, B&P estimates that this proposal could exempt between $19,914,000 (66,980 educators x $297 average federal claim) to $33,495,000 (66,980 educators x $500 proposed maximum claim) in income from Missouri income tax.

However, subtractions 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). Consequently, B&P estimates that the educator expense subtraction could reduce TSR and GR by $395,958 to $1,574,265 in FY26. Once SB 3 (2022) has fully implemented, this provision could reduce TSR and GR by $896,130 to $1,507,275 annually.

Table 1: GR Impact - Teacher Subtraction

Tax Rate	Tax Year (Fiscal Year)					
	2025 (FY26)		2026 (FY27)		2027 (FY28)	
	Low	High	Low	High	Low	High
4.7%	($935,958)	($1,574,265)	($935,958)	($1,574,265)	($935,958)	($1,574,265)
4.6%			($916,044)	($1,540,770)	($916,044)	($1,540,770)
4.5%					($896,130)	($1,507,275)

Section 143.121.3(15) – First Responder Subtraction

Officials from B&P note this proposal would allow certain first responders to subtract up to $500 in income received as compensation received as a first responder. First responders include: state and local law enforcement, 911 operators, fire department personnel, and emergency medical personnel.

B&P notes that this subtraction would apply to expenses incurred during tax year 2025. Therefore, B&P anticipates that this proposal could begin impact state revenues during FY26 when tax year 2025 income tax returns are filed.

Based on data published by the U.S. Bureau of Labor Statistics – Occupational Employment and Wage Statistics, B&P estimates that there are approximately 30,020 qualifying first responders in Missouri. B&P notes that the average annual income related to such occupations is above $500 per year. Therefore, B&P will reflect the potential impact as a full $500 subtraction.

Based on the above information, B&P estimates that this provision could exempt $17,510,000 in income from Missouri income tax.

However, subtractions 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). Consequently, B&P estimates that the educator expense subtraction could reduce TSR and GR by $822,970 in FY26.

Once SB 3 (2022) has fully implemented, this provision could reduce TSR and GR by $787,950 annually.

Table 2: GR Impact - First Responder Subtraction

Tax Rate	Tax Year (Fiscal Year)		
	2025 (FY26)	2026 (FY27)	2027 (FY28)
4.7%	($822,970)	($822,970)	($822,970)
4.6%		($805,460)	($805,460)
4.5%			($787,950)

Oversight notes both DOR and B&P's estimates include data from DOR and B&P's internal Income Tax Model.

Oversight notes that it does not currently have the resources and/or access to state tax data to produce a thorough independent revenue estimate and is unable to verify the revenue estimates provided by B&P and DOR. Therefore, for the purpose of this fiscal note, Oversight will utilize DOR & B&P's estimated impact for this proposal.

Oversight notes for the purpose of the 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 – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
GENERAL REVENUE FUND			
Revenue Reduction – SA 3 -§143.1160 - Extension of the Long-Term Dignity Act - p. (4)	Could exceed ($32,438)	Could exceed ($31,748)	Could exceed ($31,058)
Revenue Reduction - §143.121 - Income Tax Subtraction for military pension survivor benefits - pp. (5-6)	(Unknown)	(Unknown)	(Unknown)
Revenue Reduction - SA 1 - §143.121 - Income Tax Subtraction for first responder survivor benefits - pp. (6-7)	$0	($133,768)	($130,922)

FISCAL IMPACT – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
Costs - DOR - Income tax system & form upgrades	($34,445)	$0	$0
Revenue Reduction - SA 2 - §143.121 - Subtraction of income for educators – p. (8)	($935,958 to $1,574,030)	($916,044 to $1,540,540)	($896,130 to $1,507,050)
Revenue Reduction - SA 2 - §143.121 - Subtraction of income for first responders - p. (9)	($822,970)	($805,460)	($787,950)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**Could exceed ($1,825,811 to $2,463,883)**	**Could exceed ($1,887,020 to $2,511,516)**	**Could exceed ($1,846,060 to $2,456,980)**

FISCAL IMPACT – Local Government	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

This act modifies provisions relating to income tax deductions.

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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