

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1213S.01I
Bill No.: SB 12
Subject: Taxation and Revenue - Income
Type: Original
Date: January 30, 2025

Bill Summary: This proposal authorizes income tax deductions for educators and first responders.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue*	(\$1,777,982 to \$2,416,054)	(\$1,721,504 to \$2,346,000)	(\$1,684,080 to \$2,295,000)
Total Estimated Net Effect on General Revenue	(\$1,777,982 to \$2,416,054)	(\$1,721,504 to \$2,346,000)	(\$1,684,080 to \$2,295,000)

***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+).

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. Subtractions from MO Adjusted Gross Income

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)

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)

These subtractions will require an additional line be added to the MO-A form for each of them (\$2,200 each), information would need to be added to the department's website and these would need to be added to the department's individual income tax computer system (\$7,327 each). These costs are estimated at \$19,054.

Oversight will show DOR’s administrative costs to implement this proposal for the purpose of this fiscal note.

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

B&P notes 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)

Summary

In summary, B&P estimates that this proposal could reduce TSR and GR by \$7,158,928 to \$2,397,235 in FY26. Once SB 3 (2022) has fully implemented, this provision could reduce TSR and GR by \$1,684,080 to \$2,295,225 annually.

Table 3: GR Impact - Summary

Tax Rate	Tax Year (Fiscal Year)					
	2025 (FY26)		2026 (FY27)		2027 (FY28)	
	Low	High	Low	High	Low	High
4.7%	(\$1,758,928)	(\$2,397,235)	(\$1,758,928)	(\$2,397,235)	(\$1,758,928)	(\$2,397,235)
4.6%			(\$1,721,504)	(\$2,346,230)	(\$1,721,504)	(\$2,346,230)
4.5%					(\$1,684,080)	(\$2,295,225)

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+).

<u>FISCAL IMPACT – State Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028
GENERAL REVENUE FUND			
<u>Costs</u> - §143.121 - DOR - Income tax system & form upgrades	(\$19,054)	\$0	\$0
<u>Revenue Reduction</u> - §143.121 - Subtraction of income for educators	(\$935,958 to \$1,574,030)	(\$916,044 to \$1,540,540)	(\$896,130 to \$1,507,050)
<u>Revenue Reduction</u> - §143.121 - Subtraction of income for first responders	(\$822,970)	(\$805,460)	(\$787,950)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$1,777,982 to \$2,416,054)</u>	<u>(\$1,721,504 to \$2,346,000)</u>	<u>(\$1,684,080 to \$2,295,000)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028
	<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 authorizes income tax deductions for educators and first responders.

EDUCATOR EXPENSES TAX DEDUCTION

For all tax years beginning on or after January 1, 2025, this act authorizes a tax deduction in the amount of 100% of unreimbursed educator expenses incurred by an eligible educator, not to exceed \$500.

An eligible educator is defined as an individual who is a kindergarten through grade twelve teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during a school year, or is a teacher in an early childhood education program.

Educator expenses are defined as expenses incurred as a result of the participation by the educator in professional development courses related to the curriculum in which the educator provides instruction, and expenses in connection with books, supplies, computer equipment and other equipment, and supplementary materials used by the eligible educator in the classroom.

FIRST RESPONDER TAX DEDUCTION

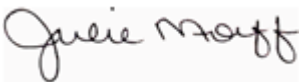
For all tax years beginning on or after January 1, 2025, this act authorizes a tax deduction for income received as salary or compensation for service as a first responder, not to exceed \$500.

First responder is defined as state and local law enforcement personnel, telecommunicator first responders, fire department personnel, and emergency medical personnel who will be deployed to bioterrorism attacks, terrorist attacks, catastrophic or natural disasters, and emergencies.

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 30, 2025



Jessica Harris
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January 30, 2025