

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1248S.01I
Bill No.: SB 163
Subject: Taxation and Revenue - Income; Veterans
Type: Original
Date: January 7, 2025

Bill Summary: This proposal modifies provisions relating to an income tax deduction for certain national guard duties.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue	Up to (\$47,282)	Up to (\$46,276)	Up to (\$45,270)
Total Estimated Net Effect on General Revenue	Up to (\$47,282)	Up to (\$46,276)	Up to (\$45,270)

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 143.175 - Income Tax Deduction for Certain National Guard Duties

Officials from the **Office of Administration - Budget and Planning (B&P)** note beginning with tax year 2025, this proposal would exempt certain National Guard pay from Missouri income tax. This proposal would exempt all pay earned under SAD or SED activation. B&P notes that all other National Guard pay is already exempt from Missouri income taxes under Sections 143.174 and 143.175.

Based on data provided by the Missouri National Guard, the following amounts were paid for SAD/SED duty since 2021:

Table 1: SAD / SED
Pay by Year

Calendar Year	SAD & SED Pay
2021	\$1,006,009
2022	\$447,312
2023	\$0
2024	\$937,292

B&P notes that the amount of SAD / SED pay earned in a year depends on the number, and length of time, service members are activated. For the purpose of this fiscal note, B&P will reflect the potential impact as “up to” the highest amount paid (CY 2021). Therefore, B&P estimates that this proposal could exempt up to \$1,006,009 in income from taxation.

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).

Consequently, B&P estimates that exempting SAD / SED pay could reduce TSR and GR by up to \$47,282 in FY26. Once SB 3 (2022) has fully implemented, this provision could reduce TSR and GR by up to \$45,270 annually.

Table 2: Estimated Revenue Loss by Fiscal Year

Tax Rate	Tax Year (Fiscal Year)			
	2025 (FY26)	2026 (FY27)	2027 (FY28)	2028 (FY29)
4.7%	up to (\$47,282)	up to (\$47,282)	up to (\$47,282)	up to (\$47,282)
4.6%		up to (\$46,276)	up to (\$46,276)	up to (\$46,276)
4.5%			up to (\$45,270)	up to (\$45,270)

Officials from the **Department of Revenue (DOR)** note currently the National Guard members receive an income tax deduction for the pay they receive for their one weekend a month & 2 weeks a year service. This proposal will expand this income tax deduction to include the pay they receive when called up for their state active duty (SAD) or state emergency duty (SED). This deduction is granted when calculating their Missouri Adjusted Gross Income.

The National Guard notes that the amount paid each year, depends on the number of members activated for service and the length of time the members serve at the emergency. Information received by the National Guard shows the amount paid for SAD/SED duty since 2021.

Table 1: SAD / SED
 Pay by Year

Calendar Year	SAD & SED Pay
2021	\$1,006,009
2022	\$447,312
2023	\$0
2024	\$937,292

For the purpose of the fiscal note, DOR will show the impact “Up to” the highest amount paid over the last four years. Deductions do not reduce income on a dollar-for-dollar basis but in proportion to the top rate of the individual income tax rate applied. It should be noted that SB 3 adopted in 2022, set the individual income tax rate top bracket at 4.95% in TY 2023 and set it at 4.8% in TY 2024 and based on certain revenue triggers allows the tax rate to continue to fall 0.1% until it hits 4.5%. The tax rate for tax year 2025 is 4.7%. Based on the current revenue forecasts and for fiscal note purposes only, DOR shows the final two SB 3 rate reductions occurring in tax year 2028 (4.6%) and 2029 (4.5%). DOR will show the implementation of this proposal through the SB 3 reductions.

Tax Rate	Tax Year (Fiscal Year)			
	2025 (FY26)	2026 (FY27)	2027 (FY28)	2028 (FY29)
4.7%	up to (\$47,282)	up to (\$47,282)	up to (\$47,282)	up to (\$47,282)
4.6%		up to (\$46,276)	up to (\$46,276)	up to (\$46,276)
4.5%			up to (\$45,270)	up to (\$45,270)

This will require DOR to add a line to the MO-1040 (\$2,200), update the department’s website and change the department’s individual income tax computer program (\$1,832). This is estimated to cost \$4,032.

Oversight assumes 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. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

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			
Revenue Reduction - §143.175 - Income Tax Deduction for Certain National Guard Duties	Up to (\$47,282)	Up to (\$46,276)	Up to (\$45,270)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>Up to (\$47,282)</u>	<u>Up to (\$46,276)</u>	<u>Up to (\$45,270)</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.

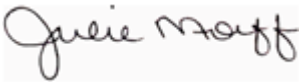
FISCAL DESCRIPTION

Current law authorizes an income tax deduction for salary earned as compensation for certain duties performed for the National Guard. This act adds performance of state active duty (SAD) or state emergency duty (SED) to such eligible duties.

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



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January 7, 2025



Jessica Harris
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January 7, 2025