

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2481S.01I
 Bill No.: SB 650
 Subject: Taxation and Revenue - Income
 Type: Original
 Date: March 30, 2025

Bill Summary: This proposal exempts certain professions from income tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue*	(\$1,057,476,328)	(\$2,517,800,780)	(\$2,463,065,980)
Total Estimated Net Effect on General Revenue	(\$1,057,476,328)	(\$2,517,800,780)	(\$2,463,065,980)

***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 143.126 - Income Tax Deduction for Certain Professions

Officials from the **Department of Revenue (DOR)** note this proposal starting with tax year 2026 will allow qualified employees in certain industries a subtraction of up to the first \$100,000 in income for calculating individual income tax. The first \$100,000 of income earned would be subtracted from the Missouri adjusted gross income before calculating tax. DOR notes this proposal does not state that the full \$100,000 be earned from the qualifying industry just that the employee be working in a qualified job.

This proposal lists the qualifying employees as:

First responders including peace officers, firefighters and emergency medical technicians.

Licensed nurses.

Teachers- including public, private and higher education.

Veterans.

State employees - excluding elected officials.

CDL driver.

Nursing home employees.

Childcare providers.

Laborers in the following industries:

- NAICS 22: Utilities
- NAICS 31-33: Manufacturing
- NAICS 48-49: Transportation and Warehousing
- NAICS 8111: Automotive Repair and Maintenance
- NAICS 8113: Commercial and Industrial Machinery and Equipment Repair and Maintenance
- NAICS 813930: Labor Unions / Organizations

DOR notes that CDL drivers are specifically listed by this proposal as being a qualified employee, but they are also listed under the NAICS code 48-49. As such DOR has included them under the NAICS code to prevent double counting.

Additionally, this proposal allows all veterans of any branch of the Armed Forces to receive this subtraction. DOR notes that DOR is unable to separate veteran pay from these other careers so assume this proposal could exceed the estimate if some veterans are employed in other industries.

DOR does not maintain employment data on these industries but does have salary information on the state employees eligible under this proposal. DOR then gathered data from published reports from the Bureau of Labor Statistics' Occupational Employment and Wage Statistics (OEWS)

and Quarterly Census of Employment and Wages (QCEW), and DOR was able to determine that 798,446 individuals could be impacted by this proposal. These employees show eligible income of \$54,734,799,564. Below is the estimated number of employees by wages.

Estimated Number of Qualified Workers

Job Class	Est. # Employees	Median Income	Est. Exempted Income
(a) First Responder	32,660	\$59,387	\$1,939,592,600
(b) Nurse	123,590	\$68,922	\$8,281,719,500
(c) Teacher	152,017	\$58,919	\$8,720,855,700
(d) Veteran	Not estimated to prevent double counting		
(e) State Employee			\$2,674,430,894
(f) Laborer	435,450	\$67,308	\$30,980,529,159
(g) CDL Driver	Included in NAICS 48-49		
(h) Nursing Home	38,050	\$39,433	\$1,579,749,202
(i) Childcare Provider	16,679	\$30,552	\$557,922,509
Total	798,446		\$54,734,799,564

*(a), (b), (c) based on BLS - OEWS occupational data.

*(e) based on actual payroll data.

*(f), (h), (i) based on BLS - QCEW industry data.

It should be noted that subtractions do not reduce revenue on a dollar-for-dollar basis, but rather in proportion to the top tax rate applied. SB 3 adopted in 2022 has set the tax rate at 4.7% for tax year 2025 and based on future revenue triggers could lower the rate to 4.5%. DOR will show the impact of this proposal through the implementation of SB 3.

Impact by Tax Year

Tax Year	Tax Rate	GR Impact
2026	4.70%	(\$2,572,535,580)
2027	4.70%	(\$2,572,535,580)
2028	4.60%	(\$2,517,800,780)
2029	4.50%	(\$2,463,065,980)

DOR notes that when converting from tax year to fiscal year DOR assumes based on historical records that 42% of individual income is paid during fiscal year 1 (mostly through withholdings) and the remaining 58% is paid in fiscal year 2. DOR notes that the majority of withholdings would be stopped for these careers and therefore with a start date of January 1, 2026, DOR assumes impact would begin in FY 2026. The estimated impact by fiscal year.

Impact by Fiscal Year

Fiscal Year	GR Impact
2026	(\$1,080,464,944)
2027	(\$2,572,535,580)
2028	(\$2,549,546,964)
2029	(\$2,494,812,164)
2030	(\$2,463,065,980)

This proposal would require DOR to modify the department's MO-1040 & MO-A (\$2,200 each), the department's website and computer programming (\$7,327).

Oversight notes the DOR requests one-time cost 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.

Officials from the **Office of Administration - Budget and Planning (B&P)** note beginning with tax year 2026, employees in specific industries or job classifications would be allowed a subtraction of up to \$100,000 when determining their Missouri adjusted gross income (MAGI).

B&P notes that the subtraction authorized in this proposal is not limited to income earned directly as a result of employment in a qualifying industry/job. Rather, the subtraction is allowed for all income, regardless of source, for each qualifying individual.

B&P notes that the following industries and jobs would qualify under this proposal:

- First responders – police, firefighters, paramedics, EMTs
- Licensed nurses
- Teachers – elementary, secondary, postsecondary / private and public
- Veterans
- State employees – excluding elected officials
- Laborers in the following industries:
 - NAICS 22: Utilities
 - NAICS 31-33: Manufacturing
 - NAICS 48-49: Transportation and Warehousing
 - NAICS 8111: Automotive Repair and Maintenance
 - NAICS 8113: Commercial and Industrial Machinery and Equipment Repair and Maintenance
 - NAICS 813930: Labor Unions / Organizations
- CDL Drivers
- Nursing home employees
- Childcare providers

In order to estimate the potential impact from this proposal, B&P utilized employment and salary data published by the BLS Occupational Employment and Wage Statistics (OEWS), BLS Quarterly Census of Employment and Wages (QCEW), as well as state employee pay data. Based on all available information, this proposal could impact more than 798,446 individuals and exempt over \$54,734,799,564 in wages from the individual income tax. Table 1 shows the estimated number of employees and wages by job class.

Table 1: Estimated Number of Qualified Workers

Job Class	Est. # Employees	Median Income	Est. Exempted Income
(a) First Responder	32,660	\$59,387	\$1,939,592,600
(b) Nurse	123,590	\$68,922	\$8,281,719,500
(c) Teacher	152,017	\$58,919	\$8,720,855,700
(d) Veteran	Not estimated to prevent double counting		
(e) State Employee			\$2,674,430,894
(f) Laborer	435,450	\$67,308	\$30,980,529,159
(g) CDL Driver	Included in NAICS 48-49		
(h) Nursing Home	38,050	\$39,433	\$1,579,749,202
(i) Childcare Provider	16,679	\$30,552	\$557,922,509
Total	798,446		\$54,734,799,564

*(a), (b), (c) based on BLS - OEWS occupational data.

*(e) based on actual payroll data.

*(f), (h), (i) based on BLS - QCEW industry data.

B&P did not include an estimate for granting veterans as subtraction in order to prevent double counting as it is unknown how many individuals already included by job class are also veterans. Therefore, the estimates could exceed the amounts shown in this response.

B&P further notes that CDL related jobs are already included under the NAICS 48-49 classification. Therefore, B&P did not include statistics for the job class in order to prevent double counting.

In addition, there may be some overlap between the nurse's job class and the nursing home industry. The overlap is not anticipated to be significant.

Based on the above information, B&P estimates that this proposal could exempt \$54,734,799,564 in wages from 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). Table 1 shows the estimated impact by tax year and tax rate.

Table 1: Impact by Tax Year

Tax Year	Tax Rate	GR Impact
2026	4.70%	(\$2,572,535,580)
2027	4.70%	(\$2,572,535,580)
2028	4.60%	(\$2,517,800,780)
2029	4.50%	(\$2,463,065,980)

B&P notes that the majority of income tax withholdings would likely stop once the subtraction becomes effective January 1, 2026. Therefore, this proposal will begin affecting state revenues in FY26. Based on actual collections data, B&P estimates that 42% of individual income taxes are paid during fiscal year 1 and 58% are paid during fiscal year 2.

Therefore, B&P estimates that this proposal could reduce TSR and GR by \$1,080,464,944 in FY26. Once SB 3 (2022) has fully implemented, B&P estimates that this proposal could reduce TSR and GR by \$2,463,065,980 annually. Table 2 shows the estimated impact by fiscal year.

Table 2: Impact by Fiscal Year

Fiscal Year	GR Impact
2026	(\$1,080,464,944)
2027	(\$2,572,535,580)
2028	(\$2,549,546,964)
2029	(\$2,494,812,164)
2030	(\$2,463,065,980)

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.

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 that B&P uses a 42% in first fiscal year and 58% split in the second year to convert the income tax numbers from tax year to fiscal year.

Fiscal Impact by Tax Year

Tax Year	Tax Rate	GR Impact
2026	4.60%	(\$2,517,800,780)
2027	4.50%	(\$2,463,065,980)
2028	4.50%	(\$2,463,065,980)

Fiscal Impact by Fiscal Year

Fiscal Year	GR Impact
2026	(\$1,057,476,328)
2027	(\$2,517,800,780)
2028	(\$2,463,065,980)

<u>FISCAL IMPACT – State Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028
GENERAL REVENUE FUND			
<u>Revenue Loss - §144.126 - Income tax deduction for certain professions</u>	(\$1,057,476,328)	(\$2,517,800,780)	(\$2,463,065,980)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(\$1,057,476,328)	(\$2,517,800,780)	(\$2,463,065,980)

<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

For all tax years beginning on or after January 1, 2026, this act provides that the first \$100,000 of income shall be subtracted from a taxpayer's federal adjusted gross income if the taxpayer is employed as any of the following: 1) a first responder, 2) a nurse, 3) a teacher, 4) a veteran of any branch of the Armed Forces of the United States, 5) any state employee, excluding elected officials, 6) a laborer, 7) a commercial truck driver, 8) a nursing home employee, or 9) a child care provider, as such terms are defined in the act.

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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March 30, 2025



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March 30, 2025