

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4328S.01I
 Bill No.: SB 1063
 Subject: Taxation and Revenue - Income; Veterans
 Type: Original
 Date: February 20, 2026

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 2027	FY 2028	FY 2029
General Revenue	Less than (\$4,305,021)	Less than (\$4,213,424)	Less than (\$4,121,828)
Total Estimated Net Effect on General Revenue	Less than (\$4,305,021)	Less than (\$4,213,424)	Less than (\$4,121,828)

*Oversight notes for the purpose of the fiscal note, Oversight assumes a top income tax rate of 4.7% in tax year 2026 (FY 2027) and future income tax rate reductions from SB 3 (2022) will trigger consecutively (4.6% in FY 2028 and 4.5% in FY 2029+).

ESTIMATED NET EFFECT ON OTHER STATE FUNDS

FUND AFFECTED	FY 2027	FY 2028	FY 2029
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 2027	FY 2028	FY 2029
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)

FUND AFFECTED	FY 2027	FY 2028	FY 2029
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 2027	FY 2028	FY 2029
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

§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 military survivor benefits from income tax. B&P notes that this provision would become effective August 28, 2026, which is during tax year 2026. For the purpose of this fiscal note, B&P will assume that this subtraction will apply to all survivor benefits received during tax year 2026.

B&P notes that there are two main survivor benefit programs. The Dependency Indemnity Compensation (DIC) and the Survivor Benefit Plan (SBP). Payments received under the DIC program are already exempt from federal and state income taxes. However, payments received under the SBP program are generally considered taxable at the state and federal level.

Based on data published by the Department of Defense there were 5,951 survivors receiving a total of \$78.6 million in SBP payments in Missouri during federal fiscal year 2022. During federal fiscal year 2025, there were 311,000 survivors receiving \$5.4 billion in payments in the United States. Assuming the Missouri had the same ratio of survivors and payments in FFY25 as FF22, B&P estimates that of those 311,000 survivors approximately 5,976 lived in Missouri and received total SBP payments of \$91.6 million.

B&P notes that Section 143.124.5 already allows taxpayers to subtract up to the maximum social security benefit (\$49,824 for 2026) in public pension benefits. Based on the information above, the average survivor benefit is approximately \$15,327 per year. However, the public pension benefit is reduced by any amount of social security subtracted from a taxpayers adjusted gross income (Section 143.124.7). Therefore, it is possible that some taxpayers may not currently be able to subtract their full SBP payments from Missouri income tax.

Based on the above information, B&P estimates that this proposal could exempt up to \$91.6 million income, though most of that income is likely already exempt under the public pension subtraction.

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 exempting military survivor benefit payments could reduce TSR and GR by less than \$4,305,021 (top tax rate 4.7%) in FY27. Once SB 3 (2022) has fully implemented, this provision could reduce TSR and GR by less than \$4,121,828 annually.

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 notes that the Dependency Indemnity Compensation (DIC) and the Survivor Benefit Plan (SBP) are the two main survivor benefit programs. Payments under the DIC program are exempt from federal and state income taxes, while payments under the SBP program are taxable at the federal and state level.

DOR does not maintain information on these types of benefits. However, the Department of Defense publishes data indicating that there are 5,951 survivors receiving a total of \$78.6 million in SBP payments in Missouri during federal fiscal year 2022 . During federal fiscal year 2025, there were 311,000 survivors receiving \$5.4 billion in payments in the United States. Assuming that Missouri had the same ratio of survivors and payments in Federal FY25 as Federal FY22, of those 311,000 survivors approximately 5,976 lived in Missouri and received SBP payments of \$91.6 million.

Based on the information above, the average survivor benefit is approximately \$15,327 per year. DOR notes that Section 143.124.5 already allows taxpayers to subtract up to the maximum social security benefit (\$49,824 for 2026) in public pension benefits from their Missouri Adjusted Gross Income. However, the public pension benefit is also reduced by any amount of social security subtracted from a taxpayer's adjusted gross income (Section 143.124.7). Therefore, it is possible that some taxpayers may not currently be able to subtract their full SBP payments from Missouri income tax.

DOR estimates that this proposal could exempt up to \$91.6 million income, though most of that income may be exempt under the public pension subtraction. Therefore, DOR will show the impact as less than the full amount calculated.

Subtractions do not reduce revenues on a dollar-for-dollar basis, but rather in proportion to the top tax rate applied. SB 3 adopted in (2022) is allowing the individual income tax rate to be reduced over a period of time based on certain revenue triggers. The tax rate for tax year 2026 is 4.7%. DOR will show the impact over the full implementation of SB 3. The general revenue loss is estimated to be:

Table 1: Estimated Revenue Loss by Fiscal Year

Tax Rate	Tax Year 2026 (FY27)	Tax Year 2027 (FY28)	Tax Year 2028 (FY29)	Tax Year 2029 (FY30)
4.7%	Less than (\$4,305,021)	Less than (\$4,305,021)	Less than (\$4,305,021)	Less than (\$4,305,021)
4.6%		Less than (\$4,213,424)	Less than (\$4,213,424)	Less than (\$4,213,424)
4.5%			Less than (\$4,121,828)	Less than (\$4,121,828)

This will require the Department to add another deduction to the MO-1040 & MO-A at a cost of 2,200 per form. DOR will also be required to update its website and computer programming at a cost of \$7,547.

Oversight assumes the Department of Revenue is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the costs for forms and website changes. 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 2026 (FY 2027) and future income tax rate reductions from SB 3 (2022) will trigger consecutively (4.6% in FY 2028 and 4.5% in FY 2029+).

<u>FISCAL IMPACT – State Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
GENERAL REVENUE			
<u>Revenue Loss</u> – (\$143.121) Income tax deduction for certain survivor benefits p.5	Less than (\$4,305,021)	Less than (\$4,213,424)	Less than (\$4,121,828)
ESTIMATED NET EFFECT ON GENERAL REVENUE	Less than (\$4,305,021)	Less than (\$4,213,424)	Less than (\$4,121,828)

<u>FISCAL IMPACT – Local Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
	\$0	\$0	\$0

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

The proposed legislation authorizes an income tax deduction for certain survivor benefits.

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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February 20, 2026



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February 20, 2026