

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4862S.01I
Bill No.: SB 1138
Subject: Taxation and Revenue - Income
Type: Original
Date: January 21, 2026

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND

FUND AFFECTED	FY 2027	FY 2028	FY 2029
General Revenue*	Could exceed (\$1,420,877,141)	Could exceed (\$2,841,754,281)	Could exceed (\$2,811,522,853)
Total Estimated Net Effect on General Revenue	Could exceed (\$1,420,877,141)	Could exceed (\$2,841,754,281)	Could exceed (\$2,811,522,853)

*Estimated revenue loss from exempted income.

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

§143.126 - Income Tax Deduction for Certain Professions

Officials from the **Office of Administration - Budget and Planning (B&P)** note beginning with tax year 2027, 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
- Line workers – installs, maintains, and repairs electrical power lines and equipment

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 853,423 individuals and exempt over \$60,462,857,034 in wages from the individual income tax. Table 1 shows the estimated number of employees and wages by job class.

B&P Table 1: Estimated Number of Qualified Workers

Job Class	Est. # Employees	Median Income	Est. Exempted Income
(a) First Responder	32,530	\$63,490	\$2,065,322,400
(b) Nurse	129,330	\$71,943	\$8,968,147,000
(c) Teacher	157,407	\$56,803	\$8,761,027,200
(d) Veteran	-	-	-
(e) State Employee	-	-	\$2,674,430,894
(e) Federal Employee	57,127	-	\$5,013,808,282
(f) Laborer	433,733	\$69,948	\$30,958,238,878
(g) CDL Driver	-	-	-
(h) Nursing Home	39,336	\$40,598	\$1,676,286,480
(i) Child care Provider	17,321	\$30,198	\$571,405,259
(j) Line workers	3,960	\$87,272	\$345,595,900
Total	853,423	-	\$60,462,857,034

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

*(e) based on actual payroll data.

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

*(d) not estimated to prevent double counting

*(g) included in NAICS 48-49

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 \$60,462,857,034 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 2 shows the estimated impact by tax year and tax rate.

B&P Table 2: Impact by Tax Year

Tax Year	Tax Rate	GR Impact
2027	4.70%	(\$2,841,754,281)
2028	4.70%	(\$2,841,754,281)
2029	4.60%	(\$2,781,291,424)
2030	4.50%	(\$2,720,828,567)

B&P notes that the majority of income tax withholdings would likely stop once the subtraction becomes effective January 1, 2027. Therefore, this proposal will begin affecting state revenues in FY27. For the purpose of this fiscal note, B&P assumes that withholdings are generally received 50/50 between fiscal years for income earned during a tax year.

Therefore, B&P estimates that this proposal could reduce TSR and GR by \$1,420,877,141 in FY27. Once SB 3 (2022) has fully implemented, B&P estimates that this proposal could reduce TSR and GR by \$2,720,828,567 annually. Table 3 shows the estimated impact by fiscal year.

B&P Table 3: Impact by Fiscal Year

Fiscal Year	GR Impact
2027	(\$1,420,877,141)
2028	(\$2,841,754,281)
2029	(\$2,811,522,853)
2030	(\$2,751,059,996)
2031	(\$2,720,828,567)

Officials from the **Department of Revenue (DOR)** note this proposal starting with tax year 2027 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 has added language that the full \$100,000 must be earned from the qualifying industry and not other jobs in which they may be employed.

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 and federal employees - excluding elected officials

CDL driver

Nursing home employees

Childcare providers

Electrical Power Line workers

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 and U.S government employees 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 listed 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 858,501 individuals could be impacted by this proposal. These employees show eligible income of \$58,781,542,128. DOR notes that the eligible income shown below is based on the average pay at the qualifying position. Below is the estimated number of employees by wages.

DOR Table 1: Estimated Number of Qualified Workers

Job Class	Est. # Employees	Median Income	Est. Exempted Income
(a) First Responder	32,530	\$63,490	\$2,065,322,400
(b) Nurse	129,330	\$71,943	\$8,968,147,000
(c) Teacher	157,407	\$56,803	\$8,761,027,200
(d) Veteran	-	-	-
(e) State Employee	-	-	\$2,674,430,894
(e) Federal Employee	57,127	-	\$5,013,808,282
(f) Laborer	433,733	\$69,948	\$30,958,238,878
(g) CDL Driver	-	-	-
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(i) Child care Provider	17,321	\$30,198	\$571,405,259
(j) Line workers	3,960	\$87,272	\$345,595,900
Total	853,423		\$60,462,857,034

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

*(e) based on actual payroll data.

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

*(d) not estimated to prevent double counting

*(g) included in NAICS 48-49

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.

DOR Table 2: Impact by Tax Year

Tax Year	Tax Rate	GR Impact
2027	4.70%	(\$2,841,754,281)
2028	4.70%	(\$2,841,754,281)
2029	4.60%	(\$2,781,291,424)
2030	4.50%	(\$2,720,828,567)

DOR notes that when converting from tax year to fiscal year DOR assumes based on historical records that 41% of individual income is paid during fiscal year 1 (mostly through withholdings) and the remaining 59% 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, 2027, DOR assumes the impact would begin in FY 2027. The estimated impact by fiscal year.

DOR Table 3: Impact by Fiscal Year

Fiscal Year	GR Impact
2027	(\$1,420,877,141)
2028	(\$2,841,754,281)
2029	(\$2,811,522,853)
2030	(\$2,751,059,996)
2031	(\$2,720,828,567)

This proposal would require DOR to modify its MO-1040 & MO-A (\$2,200 each), the department's website and computer programming (\$7,547).

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.

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.

<u>FISCAL IMPACT – State Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
GENERAL REVENUE			
<u>Revenue Loss</u> – (\$143.126) Income tax exemption for certain careers p.5	Could exceed (\$1,420,877,141)	Could exceed (\$2,841,754,281)	Could exceed (\$2,811,522,853)
ESTIMATED NET EFFECT ON GENERAL REVENUE	Could exceed (\$1,420,877,141)	Could exceed (\$2,841,754,281)	Could exceed (\$2,811,522,853)

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

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

This act establishes the "Retaining MO Workers Act".

For all tax years beginning on or after January 1, 2027, 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 or federal employee, excluding elected officials, 6) a laborer, 7) a commercial truck driver, 8) a nursing home employee, 9) a child care provider, or 10) a lineworker, 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

Office of Administration - Budget and Planning
Department of Revenue



Julie Morff
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January 21, 2026



Jessica Harris
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January 21, 2026