

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5404S.01I  
Bill No.: SB 1032  
Subject: Taxation and Revenue - Income  
Type: Original  
Date: January 20, 2026

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Bill Summary: This proposal creates an income tax deduction for certain dependents.

**FISCAL SUMMARY**

**ESTIMATED NET EFFECT ON GENERAL REVENUE FUND**

FUND AFFECTED	FY 2027	FY 2028	FY 2029
General Revenue*	\$0	Could exceed (\$7,676,213)	Could exceed (\$7,476,043)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>Could exceed (\$7,676,213)</b>	<b>Could exceed (\$7,476,043)</b>

\*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
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.

**ESTIMATED NET EFFECT ON FEDERAL FUNDS**

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

**ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)**

FUND AFFECTED	FY 2027	FY 2028	FY 2029
General Revenue	0 FTE	1 FTE	1 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>0 FTE</b>	<b>1 FTE</b>	<b>1 FTE</b>

- ☒ 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
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### §143.161 - Income Tax Deduction for Certain Dependents

Officials from the **Office of Administration - Budget and Planning (B&P)** state starting in tax year 2027, this proposal would grant a \$2,400 tax deduction for each qualifying dependent in the year a woman gives birth. The deduction shall only be granted for children that the taxpayer is eligible to receive the federal dependent deduction. The taxpayer cannot claim this deduction and the deduction under subdivision 1 (dependent deduction – live births) or subdivision 3 (stillbirth deduction).

B&P notes that this proposal would only grant the taxpayer who has given birth the deduction. Therefore, male or female spouses/partners cannot claim this deduction. This would also prevent a married couple from claiming the deduction if only the non-birthing parent has income.

B&P notes that subdivision 3 prevents a taxpayer from claiming this deduction and the dependent or stillbirth deductions. B&P further notes that per the federal Tax Cut and Jobs Act (TCJA, 2017) and One Big Beautiful Bill (OBBA, 2025), the federal dependent deduction is set at \$0. In addition, HB 2540 (2018) clarified that as long as the federal deduction is set at \$0, there is no Missouri dependent or stillbirth deduction allowed.

Based on data published by DHSS, on average there were 68,486 live births from 2020-2024.

Therefore, B&P estimates that this proposal could exempt approximately \$164,365,440 (68,486 x \$2,400) from income tax. 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). Table 1 shows the estimated impact by year.

Table 1: Estimated Revenue Loss by Fiscal Year

Tax Rate	Tax Year (Fiscal Year)		
	2027 (FY28)	2028 (FY29)	2029 (FY30)
4.7%	(\$7,725,176)	(\$7,725,176)	(\$7,725,176)
4.6%	(\$7,560,810)	(\$7,560,810)	(\$7,560,810)
4.5%		(\$7,396,445)	(\$7,396,445)

Therefore, B&P estimates that this provision could reduce TSR and GR by \$7,725,176 (top tax rate 4.7%) in FY28. Once SB 3 (2022) has fully implemented, this proposal could reduce TSR and GR by \$7,396,445 annually.

Officials from the **Department of Revenue (DOR)** note currently in statutes a person is allowed an individual income tax deduction (\$1,200) for the following:

- 143.161.1 a dependency deduction
- 143.161.2 a head of household deduction
- 143.161.3 a stillbirth exemption.

In December of 2017, the Tax Cuts and Jobs Act passed at the federal level and set the dependency deduction at zero. HB 2540 adopted in 2018, by the Missouri General Assembly, added language to the department's dependency deduction that makes the state deduction zero if the federal deduction is zero. Because of the language of HB 2540 DOR's dependent deduction went to zero in 2018.

This proposal attempts to create another deduction (Section 143.161.4). This would allow a taxpayer to claim a deduction in a year in which the taxpayer gives birth to a child. The deduction would be \$2,400 for each child for which the taxpayer is entitled to a dependency exemption even if the dependency exemption is zero. Therefore in 2027, a woman who gives birth to a child would be eligible to receive a \$2,400 deduction for that child.

The Department notes that over the last three years the average number of children born in Missouri was 67,961 a year. Which would result in \$163,105,600 (\$2,400 deduction \* 67,961 kids) being taken in deductions annually. A deduction is not a dollar-for-dollar reduction of revenue but is based on that tax rate in effect at the time. This proposal states it is to begin with tax years 2027 and the estimated tax rate for 2027 is 4.7%. Therefore, this would result in a loss to general revenue of \$7,665,963 (\$163,105,600 \* 4.7%) starting in FY 28 when the first returns are filed claiming the credit.

It should be noted that per SB 3 (2022) the tax rate is scheduled to drop in future years. The amount of revenue loss would depend on the tax rate at that time.

Tax Rate	2027 (FY 28)	2028 (FY 29)	2029 (FY 30)	2030 (FY 31)
4.70%	(\$7,665,963)	(\$7,665,963)	(\$7,665,963)	(\$7,665,963)
4.60%		(\$7,502,858)	(\$7,502,858)	(\$7,502,858)
4.50%			(\$7,339,752)	(\$7,339,752)

This would be a new deduction that would need to be added to the MO-1040 MO-104A, and the MO-1120 (\$2,200 each), to the department's website and to its individual income tax computer filing system (\$7,547). These changes are estimated at \$14,147. Additionally, to prevent fraud, DOR would require information on the children being claimed such as name and social security number. This would require the creation of a new form estimated at \$10,000. DOR assumes the department would need at least one Associate Customer Service Representative (\$42,953 salary plus years of service pay) for processing these returns. Should errors or correspondence be

generated to require additional FTE DOR would seek those FTE through the appropriation process.

1 FTE Associate Customer Service Rep for every 14,700 errors created

1 FTE Associate Customer Service Rep for every 5,700 pieces of correspondence generated.

**Oversight** will reflect the above-mentioned 1 FTE for DOR and costs to implement the proposal in the fiscal note.

However, the first tax year in which taxpayers would qualify for the new/expanded tax deduction(s) is Tax Year 2027. Oversight notes individuals would not file their Tax Year 2027 tax returns until after January 1, 2028 (6 months after the beginning of Fiscal Year 2028). Therefore, Oversight will report DOR's FTE cost(s) beginning in Fiscal Year 2028 assuming DOR can hire and train such FTE(s) within the first six (6) months of Fiscal Year 2028; before Tax Year 2027 tax returns would begin to be filed claiming the new/expanded tax deductions.

Oversight notes DOR's estimates include data from DOR'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 DOR. Therefore, for the purpose of this fiscal note, Oversight will utilize DOR'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 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
<b>GENERAL REVENUE</b>			
<u>Cost – DOR (§143.161) p.4-5</u>			
Personnel Service	\$0	(\$43,812)	(\$44,688)
Fringe Benefits	\$0	(\$33,957)	(\$34,310)
Expense & Equipment	\$0	(\$37,634)	(\$600)
<b>Total Costs - DOR</b>	<b>\$0</b>	<b>(\$115,403)</b>	<b>(\$79,598)</b>
FTE Change - DOR	0 FTE	1 FTE	1 FTE
<u>Revenue Loss – (§143.161) Income tax deduction for certain dependents p.4-5</u>	<u>\$0</u>	Could exceed (\$7,560,810)	Could exceed (\$7,396,445)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b>\$0</b>	<b>Could exceed (\$7,676,213)</b>	<b>Could exceed (\$7,476,043)</b>
Estimated Net FTE Change on General Revenue	0 FTE	1 FTE	2 FTE

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

### FISCAL IMPACT – Small Business

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

### FISCAL DESCRIPTION

Current law authorizes a taxpayer to claim a \$1,200 exemption for each dependent for whom such taxpayer is entitled to a dependency exemption for federal tax purposes, provided such federal exemption is not equal to \$0. This act authorizes a taxpayer to claim a \$2,400 exemption during the tax year in which a taxpayer gives birth to a child for which the taxpayer is entitled to a dependency exemption for federal tax purposes, regardless of whether the federal exemption is equal to \$0.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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SOURCES OF INFORMATION

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