

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1106-01
Bill No.: HB 414
Subject: Military Affairs; Revenue Dept.; Taxation and Revenue – General; Taxation and Revenue – Income
Type: Original
Date: March 16, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue Fund	(UNKNOWN)	(UNKNOWN)	(UNKNOWN)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 4 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Public Safety – Office of Adjutant General and Department of Public Safety – Missouri Veterans Commission** assume there would be no fiscal impact to their agencies.

Officials of the **Office of Administration – Division of Budget and Planning (BAP)** assume this proposal has no impact on BAP.

BAP assumes that, according to the 2004 IRS Armed Forces' Tax Guide (Publication 3), pp. 7-8, enlisted personnel may exclude from Federal Adjusted Gross Income (FAGI) all military pay received while serving in a combat zone. Officers may exclude this amount up to the highest rate of similar pay for enlisted personnel. Therefore, BAP assumes that a large portion of combat zone wages are already excluded from FAGI, and thus from Missouri Adjusted Gross Income.

This proposal would have an unknown negative impact on general revenue and Total State Revenue.

Officials of the **Department of Revenue (DOR)** assume that currently, military income earned in combat zones is exempt from federal tax and would flow through as exempt on the Missouri income tax returns. However, commissioned officers only get to exclude up to the pay of the

ASSUMPTION (continued)

highest enlisted person under the federal exemption. Therefore, DOR assumes this legislation would exempt the balance of commissioned officers' income.

DOR assumes this proposal would require many military members—previously able to file a short form—to file a long form. The proposal would require an extra line on the form MO-A and military personnel would need to attach documentation that verifies their service in a combat zone. DOR could need additional personnel to handle deduction claims, errors, and correspondence related to this proposal. The proposal would also require programming costs and related testing, and could generate additional workload for Customer Assistance agents. DOR assumes it handle implementation of this proposal with existing appropriations, unless there is material change in its responsibilities.

Oversight assumes since combat pay for enlisted personnel is not included in the military personnel's Federal Adjusted Gross Income, it is currently not taxed by Missouri. Only that portion of income an officer receives that exceeds the highest rate of similar pay for enlisted personnel would be deductible from FAGI as a result of this legislation. Therefore, **Oversight** will show the impact of this proposal as a negative unknown.

This legislation could reduce Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
GENERAL REVENUE FUND			
<u>Loss - General Revenue</u>			
Deduction for military pay in a combat zone	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
	<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.

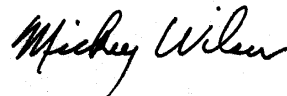
DESCRIPTION

This proposal allows as a deduction from state individual income tax any income received for military service in a combat zone, as defined in the proposal. The deduction would apply to all taxable years beginning on or after January 1, 2005.

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
Division of Budget and Planning
Department of Public Safety
Office of the Adjutant General
Missouri Veterans Commission



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Director
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