

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2857H.011
 Bill No.: HB 1696
 Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Law Enforcement Officers and Agencies; Department of Revenue
 Type: Original
 Date: January 5, 2024

Bill Summary: This proposal authorizes an income tax deduction for certain law enforcement officers.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2029)
General Revenue	\$0	(\$18,283,830)	(\$35,789,626)	(\$70,023,182)
Total Estimated Net Effect on General Revenue	\$0	(\$18,283,830)	(\$35,789,626)	(\$70,023,182)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2029)
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2029)
Total Estimated Net Effect on All Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2029)
Total Estimated Net Effect on FTE	0	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 2025	FY 2026	FY 2027	Fully Implemented (FY 2029)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 143.1405 Income Tax Deduction for Law Enforcement

Officials from the **Department of Revenue (DOR)** note for all tax years beginning on or after January 1, 2025, a member of the Missouri Highway Patrol and peace officers may deduct from their taxpayer's Missouri adjusted gross income a portion of the salary (up to \$100,000) they receive for serving as a peace officer. The total amount eligible for the deduction is 25% in calendar year 2025, 50% in calendar year 2026, 75% in calendar year 2027 and 100% of their income in calendar year 2028 and each year thereafter.

According to the U.S. Bureau of Labor Statistics, the state has the following number of officers that could potentially qualify for this deduction and their average salary is:

Occupation (SOC code)	# Employment	Annual mean wage	Salary
Probation Officers	2,420	\$42,190	\$102,099,800
First-Line Supervisors of Correctional Officers(331011)	1,150	\$45,310	\$52,106,500
First-Line Supervisors of Police and Detectives(331012)	3,210	\$76,000	\$243,960,000
First-Line Supervisors of Protective Service Workers, All Other(331099)	220	\$59,790	\$13,153,800
Fire Inspectors and Investigators(332021)	170	\$67,790	\$11,524,300
Bailiffs	200	\$35,500	\$7,100,000
Correctional Officers and Jailers(333012)	5,280	\$38,480	\$203,174,400
Detectives and Criminal Investigators(333021)	1,460	\$78,060	\$113,967,600
Fish and Game Wardens(333031)	180	\$50,140	\$9,025,200
Parking Enforcement Workers	50	\$40,130	\$2,006,500
Police and Sheriff's Patrol Officers(333051)	12,300	\$54,490	\$670,227,000
Gaming Surveillance Officers and Gambling Investigators(339031)	200	\$32,250	\$6,450,000
Totals	26,840		\$1,434,795,100

The Department notes that while this proposal begins in January 2025, it will not impact state revenue until January 2026, when the first tax returns are filed claiming the deduction. Additionally, deductions do not reduce revenue on a dollar-for-dollar basis, but rather in proportion to the top tax rate applied. SB 3 (2022) lowered the individual income tax rate to 4.8% starting January 1, 2024, and additionally is projected to lower the current tax rate down to

4.5% over a period of years based on revenue growth. Therefore, using the U.S. Bureau of Labor Statistics numbers and salary estimates, DOR calculated the estimated impacts.

	TY 2025	TY 2026	TY 2027	TY 2028
Deduction %	25%	50%	75%	100%
Tax Rate 4.8%	\$17,217,541	\$34,435,082	\$51,652,624	\$68,870,165

Since DOR does not know when the additional individual income tax rate reductions will occur, DOR will show the loss to general revenue as:

Tax Rate	2025 (FY26)	2026 (FY27)	2027 (FY28)	2028 (FY29)
	25%	50%	75%	100%
4.80%	(\$17,217,541)	(\$34,435,082)	(\$51,652,624)	(\$68,870,165)
4.70%	(\$16,858,842)	(\$33,717,685)	(\$50,576,527)	(\$67,435,370)
4.60%		(\$33,000,287)	(\$49,500,431)	(\$66,000,575)
4.50%			(\$48,424,335)	(\$64,565,780)

Section 143.1405 Law Enforcement Retirement Tax Deduction

For all tax years beginning on or after January 1, 2025, a member of the Missouri Highway Patrol and peace officers may deduct from their taxpayer's Missouri adjusted gross income a portion of the retirement benefits (up to \$100,000) they receive due to service as a peace officer. The total amount eligible for the deduction is 25% in calendar year 2025, 50% in calendar year 2026, 75% in calendar year 2027 and 100% of their income in calendar year 2028 and each year thereafter.

SB 190 adopted in 2023 already exempts a portion of a law enforcement officer's retirement benefits from taxation if he earned a public pension. The exemption is up the maximum social security benefit which is \$43,524 in 2023. Therefore, the first \$43,524 is already exempt.

There is no single source that DOR found that gives retirement benefit data. Pulling information from various financial reports of police and sheriff departments in MO, as well as the MO Highway Patrol, DOR was able to estimate the average pension is \$53,457. That would leave \$9,933 of their pension taxable. Additionally, DOR compared the number of active officers to the number of retirees and estimated there are 12,209 retiree's vs 26,840 active members.

This \$9,933 per officer would result in an estimated \$121,275,603 ($\$9,933 * 12,209$ retired officers) being eligible for the deduction. The Department notes that while this proposal begins in January 2025, it will not impact state revenue until January 2026, when the first tax returns are filed claiming the deduction. Additionally, deductions do not reduce revenue on a dollar-for-dollar basis, but rather in proportion to the top tax rate applied.

Tax Rate	Tax Year (Fiscal Year)			
	2025 (FY26)	2026 (FY27)	2027 (FY28)	2028 (FY29)
	25%	50%	75%	100%
4.8%	\$1,455,307	\$2,910,614	\$4,365,922	\$5,821,229
4.7%	\$1,424,988	\$2,849,977	\$4,274,965	\$5,699,953
4.6%		\$2,789,339	\$4,184,008	\$5,578,678
4.5%			\$4,093,052	\$5,457,402

SUMMARY

These two deductions would cause a loss of revenue to General Revenue estimated over the four-year phase in as:

Tax Rate	Tax Year (Fiscal Year)			
	2025 (FY26)	2026 (FY27)	2027 (FY28)	2028 (FY29)
	25%	50%	75%	100%
4.8%	\$18,672,848	\$37,345,696	\$56,018,546	\$74,691,394
4.7%	\$18,283,830	\$36,567,662	\$54,851,492	\$73,135,323
4.6%		\$35,789,626	\$53,684,439	\$71,579,253
4.5%			\$52,517,387	\$70,023,182

***Oversight** notes the above values estimated by DOR represent a loss in revenue.

These would be new deductions from Missouri adjusted gross income to determine Missouri taxable income, so it would require new lines on the Form MO-1040 (\$7,138), updates to their website and changes to the individual income tax computer system (\$1,785). This is estimated to cost \$8,923. While the Department assumes they could handle these deductions with existing resources, should the number of errors or correspondence reach the levels to justify an FTE or multiple bills pass increasing the errors and correspondence, the department would seek that FTE through the appropriation process.

- 1 FTE Associate Customer Service Rep for every 14,700 errors created at a salary of \$35,880.
- 1 FTE Associate Customer Service Rep for every 5,700 pieces of correspondence generated at a salary of \$35,880.

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 computer upgrades and the temporary employee costs related to this proposal. Given the number of

potential qualifiers of this deduction (26,840), Oversight assumes DOR can absorb the administrative impact of this proposal.

Officials from the **Office of Administration - Budget and Planning (B&P)** assume beginning with tax year 2025, “members of the patrol”, “peace officers”, and “federal law enforcement officers” shall be granted an income tax deduction for the salary or compensation as a member of the patrol, peace officer, or law enforcement. B&P notes that this proposal includes retirement income.

Members of the patrol include the State Highway Patrol. Peace officers include sheriffs, police officers, and other peace officers. Federal law enforcement officer includes, but is not limited to, FBI agents, Secret Service / U.S. Treasury agents, Federal Reserve agents, Amtrak Police Officers, and U.S. Marshalls.

Active Law Enforcement Income

The deduction granted is on the first \$100,000 of service-related income and the deduction percentage shall increase by 25% from tax year 2025 through tax year 2028. Beginning with tax year 2028, up to \$100,000 in compensation for a peace officer shall be exempt from Missouri income tax. B&P notes that while the deduction will begin for tax year 2025, the impact to TSR and GR will not occur until taxpayers file their annual return in FY26.

Based on data published by the Bureau of Labor Statistics, during 2022 there were approximately 26,840 individuals who may qualify for this deduction with an average annual salary of \$51,678. Therefore, B&P estimates that up to \$1,434,795,100 in individual income may qualify for this deduction. 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: Active Law Enforcement Income Exemption

	Tax Year (Fiscal Year)			
Tax Rate	2025 (FY26)	2026 (FY27)	2027 (FY28)	2028 (FY29)
25%				
4.8%	(\$17,217,541)	(\$34,435,082)	(\$51,652,624)	(\$68,870,165)
4.7%	(\$16,858,842)	(\$33,717,685)	(\$50,576,527)	(\$67,435,370)
4.6%		(\$33,000,287)	(\$49,500,431)	(\$66,000,575)
4.5%			(\$48,424,335)	(\$64,565,780)

Retired Law Enforcement Income

This proposal would also grant an income tax deduction on the first \$100,000 of service-related pension income. The deduction percentage shall increase in 25% increments from tax year 2025 through tax year 2028.

B&P was unable to determine the exact number of retired law enforcement in Missouri, nor their total pension income. However, B&P was able to obtain data for St. Louis City, Kansas City,

Springfield, and police departments participating in LAGERS. Based on this information, B&P estimates that the average law enforcement pension is \$53,457 and that there could be approximately 12,209 retired law enforcement officers residing in Missouri.

B&P notes that service-related police pensions are public pensions and per SB 190 (2023) public pensions are already exempt from Missouri income tax, up to the maximum Social Security benefit. B&P further notes that for 2023, the maximum benefit is \$43,542. Therefore, only the \$9,933 in law enforcement pensions above the current exemption limit (\$53,457 avg pension - \$43,524 max SS benefit) would now become exempt. Based on this information, B&P estimates that this proposal could exempt \$121,275,603 (\$9,933 x 12,209 retirees) from Missouri 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 2: Retired Law Enforcement Income Exemption

Tax Rate	Tax Year (Fiscal Year)			
	2025 (FY26)	2026 (FY27)	2027 (FY28)	2028 (FY29)
	25%	50%	75%	100%
4.8%	(\$1,455,307)	(\$2,910,614)	(\$4,365,922)	(\$5,821,229)
4.7%	(\$1,424,988)	(\$2,849,977)	(\$4,274,965)	(\$5,699,953)
4.6%		(\$2,789,339)	(\$4,184,008)	(\$5,578,678)
4.5%			(\$4,093,052)	(\$5,457,402)

Summary

B&P estimates that this provision may reduce TSR and GR by \$18,672,848 (top tax rate 4.8%) or by \$18,283,830 (top rate 4.7%) in FY26. Once this provision and SB 3 (2022) have fully phased-in, this provision may reduce TSR and GR by up to \$70,023,182 annually.

Table 3: Law Enforcement Income Exemption Summary

Tax Rate	Tax Year (Fiscal Year)			
	2025 (FY26)	2026 (FY27)	2027 (FY28)	2028 (FY29)
	25%	50%	75%	100%
4.8%	(\$18,672,848)	(\$37,345,696)	(\$56,018,546)	(\$74,691,394)
4.7%	(\$18,283,830)	(\$36,567,662)	(\$54,851,492)	(\$73,135,323)
4.6%		(\$35,789,626)	(\$53,684,439)	(\$71,579,253)
4.5%			(\$52,517,387)	(\$70,023,182)

Officials from the **Department of Public Safety - Highway Patrol** anticipate no fiscal impact to the agency. For Section 143.1505.1 the Patrol is appropriated funding for 1,275 Members (troopers) and 110 Commercial Vehicle Officers (CVO). Any fiscal impact related to the

provisions in this legislation, the Patrol will need to defer a response to the Department of Revenue.

Oversight notes officials from the Department of Public Safety - Peace Officer Standards and Training (POST) stated the following as of December 2023:

14,304	Peace officers licensed and commissioned
1,658	Peace officers on reserve
7,787	Peace officers licensed but not commissioned
23,749	Total Peace Officers

Oversight notes for the purpose of the fiscal note, Oversight assumes a top income tax rate of 4.8% in tax year 2024 (FY 2025) and future income tax rate reductions from SB 3 (2022) will trigger consecutively (4.7% in FY 2026, 4.6% in FY 2027, and 4.5% in FY 2028+).

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026 (25%)	FY 2027 (50%)	(Fully Implemented) FY 2029 (100%)
GENERAL REVENUE				
<u>Revenue Reduction - §143.1405 - Income Tax Deduction for Law Enforcement - p. (4,6)</u>	\$0	(\$16,858,842)	(\$33,000,287)	(\$64,565,780)
<u>Revenue Reduction - §143.1405 - Pension deduction for law enforcement - p. (5,7)</u>	\$0	(\$1,424,988)	(\$2,789,339)	(\$5,457,402)
ESTIMATED NET EFFECT ON GENERAL REVENUE	\$0	(\$18,283,830)	(\$35,789,626)	(\$70,023,182)

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027	FY 2029 (Fully Implemented)
	\$0	\$0	\$0	\$0

FISCAL IMPACT – Small Business

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

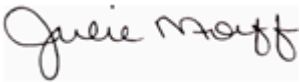
FISCAL DESCRIPTION

The proposed legislation authorizes an income tax deduction for certain law enforcement officers.

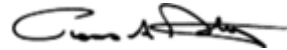
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration - Budget and Planning
Department of Public Safety - Highway Patrol
Office of the Secretary of State
Joint Committee on Administrative Rules



Julie Morff
Director
January 5, 2024



Ross Strobe
Assistant Director
January 5, 2024