

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2950H.01P
 Bill No.: Perfected HB 1713
 Subject: Taxation and Revenue - Income; Taxation and Revenue - General; Tax Incentives;
 Military Affairs; Veterans; Revenue, Department of Revenue
 Type: Original
 Date: March 6, 2024

Bill Summary: This proposal modifies provisions relating to income tax deductions for enlistment bonuses paid to members of the armed forces.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue	(Unknown)	(Unknown)	(Unknown)

***Oversight** notes that based on information provided by the DOR, the majority of military signing bonuses included in this proposal should be included under the existing income tax deductions. Therefore, Oversight assumes the fiscal impact to the General Revenue Fund would not reach the \$250,000 threshold.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
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 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
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 2025	FY 2026	FY 2027
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Sections 143.174 & 143.175 Military Income Tax Deduction

Officials from the **Department of Revenue (DOR)** note members of the military can deduct 100% of the income they receive as salary or compensation if that income is taxable at the federal level from the calculation of their Missouri adjusted gross income when calculating their taxable income. This is the military income deduction. Additionally, they can receive the deduction for income received from certain training programs. This proposal is adding to this Missouri military income deduction, income they receive from signing bonuses.

The Department found that the military does issue signing bonuses to soldiers based on their branch of service, length of enlistment and specific job specialties. The more specialized the job the more likely to be issued a signing bonus. DOR also found that signing bonuses are often paid out over a number of years rather than a single lump sum.

The federal government designates certain military pay and benefits as taxable. Information found by the Department, indicates that all income received by members of the military serving in a combat zone is tax free at the federal level, which includes their signing bonuses. Additionally, depending on their rank a portion of non-combat pay may be tax exempt.

The Department notes that while Missouri is home to Whiteman Air Force Base, Fort Leonard Wood and Fort Crowder, DOR is unable to determine how many of the soldiers stationed there are eligible for signing bonuses. DOR is also not able to determine how many of them actually file returns as a Missouri resident.

The Department is unable to locate any single source that can tell how much is paid to soldiers filing Missouri individual income tax returns and the amount of signing bonuses they receive that would be taxable. DOR assumes that should a soldier filing a Missouri return receive a taxable signing bonus they would qualify for this deduction and that income would be excluded from tax per this proposal. DOR notes this proposal could result in an unknown loss to general revenue, but assumes it would be minimal.

Officials from the **Office of Administration - Budget and Planning (B&P)** assume this proposal clarifies that military signing bonuses are to be included within the definition of “compensation” for both active duty and, reserve duty, and National Guard income tax exemptions. B&P further notes that based on information provided by DOR, the majority of such bonuses should already be included under the existing income tax deductions.

Therefore, if this proposal extends the deductions to additional bonuses not already excluded, this proposal could result in an unknown, likely minimal, loss to TSR and GR.

Oversight notes the amount of military sign on bonuses varies by service branch, education level, civilian experience, specific job specialty, and length of enlistment contract. Oversight notes the following bonus amounts:

Branch	Enlistment Bonus
Navy	\$5,000 to \$50,000
Army	Up to \$50,000
Air Force	\$3,000 to \$20,000
National Guard	Up to \$20,000
Coast Guard	\$15,000 to \$50,000
Marines	\$5,000 to \$9,000

Oversight notes that according to [U.S. Army Recruiting Command](#) 16,512 army recruits received an average bonus of \$14,100 and 6,943 army reserve with an average bonus of \$9,800 in fiscal year 2022.

Oversight notes according to the [Department of Defense](#), only 1.3% of the 15,000 active-duty military members of Missouri reside in the state.

Oversight is unable to determine the number of recruits who file a Missouri income tax return and further the amount of the bonus received. Based on the number of potential qualifiers of the bill and based on information provided by DOR, the majority of such bonuses should already be included under the existing income tax deductions; Oversight assumes the fiscal impact will *not* reach the \$250,000 threshold.

Officials from the **Missouri National Guard** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for this organization.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE			
<u>Revenue Reduction</u> - §143.174 & §143.175 - Military Income Tax Deduction	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
	<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.

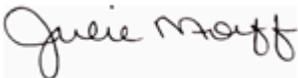
FISCAL DESCRIPTION

Current law authorizes an income tax deduction for active and reserve members of the Armed Forces for a percentage of such taxpayer's income received as salary or compensation as a member of the Armed Forces. This bill provides that the term "salary or compensation" shall include any signing bonus.

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
Missouri National Guard



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March 6, 2024



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March 6, 2024