

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6220H.02I
 Bill No.: HB 3294
 Subject: Taxation and Revenue - Income; Military Affairs; Taxation and Revenue - General;
 Department of Revenue
 Type: Original
 Date: March 24, 2026

Bill Summary: This proposal authorizes an income tax subtraction for all military income.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND

FUND AFFECTED	FY 2027	FY 2028	FY 2029
General Revenue*	\$0	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue	\$0	(Unknown)	(Unknown)

*Oversight notes both DOR & B&P assume the loss of income tax revenue from the proposed income tax subtraction will *not* reach (\$250,000). Oversight does not have any information to the contrary.

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

§§143.121, 143.174, & 143.175 - Income Tax Subtraction For Military Income

Officials from the **Department of Revenue (DOR)** note this proposal has a section B that says the repeal of the language in this proposal would become effective January 1, 2027.

Currently members of the military are allowed a subtraction of 100% of their income received from their military service, from their federal adjusted gross income when calculating their Missouri adjusted gross income (MAGI). Additionally, they are allowed to receive a deduction of active and inactive duty training pay which reduces their calculation of tax liability. These deductions and subtractions are found in Section 143.174 and 143.175. Section 143.121.3(12) allows veterans to have a subtraction of 100% of their retirement benefits from the calculation of MAGI. Additionally, 100% of their combat pay is allowed to be subtracted when calculating MAGI per Section 143.121.3(8).

This proposal repeals all these provisions of statute, then replaces with new language in Section 143.121.3(8). This new language consolidates the language of all the other sections into a clear single subtraction for all military pay or compensation. This new language would become effective January 1, 2027. DOR notes that the language moving the subtractions from one section of statute to another will not have a fiscal impact. However, moving the deductions that are taken after MAGI is calculated to before MAGI is calculated has the potential to increase the amount of federal income tax deduction some taxpayer could qualify for, which could further reduce their tax liability and the amount of tax owed.

Using information from DOR's taxpayer records, DOR notes that in tax year 2023 (the most complete year available) that \$752 million was taken in the active and inactive military deduction. Therefore, about \$35 million in tax was exempt at the current 4.7% individual income tax rate. Moving these from a deduction to a subtraction may result in an additional loss to general revenue but is expected to be minimal as the deductions already are reducing the majority of the tax liability.

DOR will need to make changes to the department's tax form (\$2,200), website and computer changes (\$7,547).

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 related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would move the existing military income deductions into one concise income tax subtraction.

The expected impact from subtracting versus deducting qualifying income will not change. However, moving from a deduction to a subtraction would lower a taxpayer's Missouri adjusted gross income (MAGI), which could allow some taxpayers to deduct more of their federal income tax through the existing FIT deduction. B&P notes that the allowable FIT deduction is based on a taxpayer's MAGI, with the deduction phasing out as MAGI increases over a base threshold amount.

FAGI - subtractions = MAGI
 MAGI - deductions = MO taxable income

The potential GR impact from this proposal expected to be minimal.

Oversight notes officials from B&P and DOR both assume the proposal will have a direct fiscal impact on state revenues. Oversight does not have any information to the contrary. Therefore, Oversight will reflect DOR's and B&P's estimated impact in the fiscal note.

<u>FISCAL IMPACT – State Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
<u>GENERAL REVENUE</u>			
<u>Revenue Loss</u> - (\$143.121, 143.174, & 143.175) Income tax subtraction for all military income p.3-4	\$0	(Unknown)	(Unknown)
<u>ESTIMATED NET EFFECT ON GENERAL REVENUE</u>	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

<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

Currently, for purposes of calculating the Missouri taxable income, 100% of the income received by any person as salary or compensation in any form as a member of the active duty component of the Armed Forces of the United States, and to the extent that such income is included in the

Federal adjusted gross income, may be deducted from the taxpayer's Missouri adjusted gross income to determine the taxpayer's Missouri taxable income. The taxpayer's retirement benefits are automatically subtracted from the taxpayer's Federal adjusted gross income.

Beginning January 1, 2027, this bill specifies that all taxable pay, benefits, and allowances paid to or received by a member or former member of the uniformed services as salary, retirement benefits, or compensation in any form for military service in the uniformed services including, but not limited to, basic pay, drill pay, annual training pay, active duty pay, active duty training pay, special and incentive pay, bonuses, inactive duty training (IDT) pay, annual training pay, and any other form of military income is subtracted from a taxpayer's Federal adjusted gross income for the purpose of calculating the taxpayer's Missouri adjusted gross income.

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



Julie Morff
Director
March 24, 2026



Jessica Harris
Assistant Director
March 24, 2026