

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 2982-01  
Bill No.: HB 881  
Subject: Military Affairs; Taxation and Revenue - Income  
Type: Original  
Date: Feb. 20, 2004

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	(Unknown)	(Unknown)	(Unknown)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(UNKNOWN)</b>	<b>(UNKNOWN)</b>	<b>(UNKNOWN)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**FISCAL ANALYSIS**

**ASSUMPTION**

Officials from the **Department of Public Safety, Office of Adjutant General** assume there would be no fiscal impact to their agency.

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

According to the 2002 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)** state this legislation adds a subtraction on the Missouri income tax return exempting any income received from military service while a taxpayer serves in a combat zone, as long as the income is included in the taxpayer's federal adjusted gross income.

ASSUMPTION (continued)

DOR believes military pay received while in a combat zone is currently exempt from federal adjusted gross income. Therefore, there is no administrative impact to DOR. If DOR is incorrect in this assumption, then DOR will incur additional administrative costs.

**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 and show unknown costs for DOR.

**This legislation could reduce Total State Revenue.**

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
<b>GENERAL REVENUE FUND</b>			
<u>Loss - General Revenue</u>			
Deduction for military pay in a combat zone	(Unknown)	(Unknown)	(Unknown)
<u>Costs - Dept. of Revenue</u>	(Unknown)	(Unknown)	(Unknown)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>
<u>FISCAL IMPACT - Local Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

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, 2004.

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



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Director  
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