

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0431-01
Bill No.: HB 246
Subject: Taxation and Revenue - Income; Military Affairs; Revenue Department
Type: Original
Date: February 24, 2015

Bill Summary: This proposal would require a military member to be treated as a nonresident for income tax purposes for each day that member is stationed outside Missouri.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	(Could exceed \$100,000)	(Could exceed \$100,000)	(Could exceed \$100,000)
Total Estimated Net Effect on General Revenue	(Could exceed \$100,000)	(Could exceed \$100,000)	(Could exceed \$100,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would have a statewide impact, and would impact the calculation required under Article X, Section 18(e) of the state constitution.

BAP officials stated this proposal would require active duty military members to be treated as non-residents for income tax purposes while they are stationed out of state. BAP officials assume that to the extent this reduces taxable income, this proposal would reduce Total State Revenues. BAP officials noted they do not have data indicating how many Missourians are deployed out of state, or the duration of deployments.

BAP officials also noted the Annual Report of the Missouri National Guard indicated there are 2,401 Airmen and 9,173 soldiers serving in Missouri's National Guard; there are likely many other Missouri citizens that are active duty military.

Officials from the **Department of Public Safety - Office of the Adjutant General (OAG)** assume this proposal would have no fiscal impact on their organization. OAG officials stated they were not able to estimate the impact this proposal would have on Missouri income tax revenues.

OAG officials told us that a Federal law, the Servicemember's Civil Relief Act (SCRA), allows the member to designate a home of record for tax purposes, and that home of record determines the state to which the military member would pay taxes. Under current provisions, a military member who has a home of record in Missouri would be taxed on military income for the entire year if the member or a spouse stayed in Missouri for more than 30 days. If the service member has a home of record for part of the year in a state with an income tax, the member would receive a credit against Missouri income tax for the income tax paid to the other state. If the home of record for part of the year was in a state without an income tax, there would be no credit available. OAG officials stated that most Missouri Air and Army National Guard members are permanent Missouri residents and would not likely benefit from this proposal, but noted a retiring active service member could be negatively impacted by current provisions.

ASSUMPTION (continued)

Oversight assumptions

This proposal would require a military member stationed outside the state to be treated as a nonresident for each day that person was stationed outside the state, effectively creating a status for military members similar to the current part-year resident status for civilians.

Oversight researched military pay and benefits on the US Army website, and determined an enlisted Specialist with a rank of E-6 would have a salary and allowances during a deployment amounting to annual compensation of approximately \$54,700.

Annual salary and allowances	\$54,700
Salary and allowances for a half year ($\$54,700 / 2$)	\$27,354
Number of relocated persons	61
Proposed amount of salary and allowances not taxable in Missouri ($\$27,354 \times 61$)	\$1,668,594
Maximum individual income tax rate	<u>6%</u>
Income tax effect ($\$1,668,594 \times 6\%$)	<u>\$100,116</u>

If 61 such military personnel were half-year residents of Missouri, this proposal would exempt their income for the half-year they were outside the state from state income tax. For fiscal note purposes, **Oversight** will assume this proposal could reduce individual income tax more than \$100,000 per year.

Officials from the **Office of the Secretary of State**, the **Joint Committee on Administrative Rules**, and the **Department of Revenue** assume this proposal would have no fiscal impact on their organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE FUND			
<u>Revenue reduction</u>			
Income tax exemption for military personnel stationed outside the state	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)

<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
	<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

This proposal would require a military member to be treated as a nonresident for income tax purposes for each day that member is stationed outside Missouri.

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

Office of the Secretary of State
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Public Safety
 Office of the Adjutant General
Department of Revenue



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