

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4828H.04C
 Bill No.: HCS for SB 994
 Subject: Taxation and Revenue - Income; Taxation and Revenue - General; Department of Revenue
 Type: Original
 Date: April 14, 2026

Bill Summary: This proposal modifies provisions relating to income tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND

FUND AFFECTED	FY 2027	FY 2028	FY 2029
General Revenue*	(Could exceed \$59,362)	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue	(Could exceed \$59,362)	(Unknown)	(Unknown)

*Oversight assumes §143.621 allowing for a refund of an erroneous deficiency and any related interest, additions to tax, or penalties attributable to the deficiency could potentially reach the \$250,000 threshold.

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 - Military Pay Income Tax Deduction

Officials from the **Department of Revenue (DOR)** assume this proposal has 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 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 tax form (\$2,200), website and computer changes (\$7,547).

Officials from the **Office of Administration – Budget & Planning (B&P)** assume 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.

§143.121.10 - Beginning Farmer Subtraction

Officials from the **Department of Revenue (DOR)** assume this proposal modifies section 143.121.10 regarding the beginning farmer deduction. It starts by changing the definition of "Farm owner" from "an individual" to "a taxpayer". It then adds a definition of "Taxpayer".

It appears the intent of the definition of "Taxpayer" is to include pass-through entities and corporations. However, the deduction must be subtracted from a taxpayer's Missouri adjusted gross income to the extent included in federal adjusted gross income. The deduction would still only be able to be claimed on an Individual Income Tax Return MO-1040. The returns for fiduciary, corporations, and pass-through entities do not include Missouri adjusted gross income.

DOR notes that beginning with tax year 2025, capital gains can be subtracted on the Individual Income Tax Return, MO-1040. This modification to the statute would only be applicable to income received through a rental, lease, or crop-sharing agreements. DOR is unable to estimate a fiscal note for increasing the number of taxpayers that can claim this deduction as it is unknown annually how many farmers may be in this situation.

DOR will need to update the MO-1040, MO-1040A, MO-1120 & MO-PTE form at a cost of \$2,200 per form. For a total of \$8,800. Additionally, this would require programming changes to the Revenue Premier system for each of these forms at a cost of \$7,547 per form change. For a total of \$30,188.

Officials from **Office of Administration – Budget & Planning (B&P)** assume B&P's estimated cost for HB 202/SB 138 was based on the definition of beginning farmer. B&P was unable then (and now) to separate sales by owner type. Therefore, the estimated costs reflected in the TAFP fiscal notes included all potential owners. This proposal will not impact TSR or the calculation under Article X, Section 18(e) beyond what was already estimated during the 2023 session.

Oversight will reflect the costs for form and programming changes as provided by the Department of Revenue.

Oversight notes the Department of Revenue assumes this proposal could increase the number of taxpayers that can claim this deduction. Oversight does not have information to the contrary and therefore, Oversight will reflect an unknown loss to general revenue for the potential increase in deductions claimed. Given the few number of potential qualifiers of this deduction, (applicable to income received through a rental, lease, or crop-sharing agreements.) Oversight assumes the unknown loss of revenue will be under the \$250,000 threshold.

§143.511 - Individual Income Tax Filing Deadlines

Officials from the **Office of Administration – Budget & Planning (B&P)** assume this provision would allow the annual income tax due date to change from April 15th to the date required for federal income tax returns. B&P notes that there are many years where the federal annual due date falls after April 15th. B&P further notes that DOR already matches the Missouri income tax due date with the federal due date. Therefore, this provision will not impact state revenues.

Officials from the **Department of Revenue (DOR)** assume this proposal would require income tax return's filing deadline to be the same as the federal deadline. It appears the intent is to allow the state filing deadline to move when the federal government moves their deadline. Currently, Missouri tax returns are due on April 15th each year unless moved by the Governor Office. Sometimes, the federal filing deadline is moved to another day.

DOR notes that some income tax returns are currently due at the federal level on March 15th but in Missouri they are due April 15th. The MO-1065 is one such example. This proposal would require Missouri to make that form and any others with different deadlines, to match the Internal Revenue Service's deadlines.

DOR notes this would require the changing of the tax forms and instructions as well as updating the computer programs. This would result in a cost of around 10,000 per form that needs changing. These would be one-time costs.

Oversight does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by the DOR.

§143.512 - Tax Credits

Officials from the **Department of Revenue (DOR)** assume this proposal appears to want to allow a taxpayer who attempts to claim a tax credit, that is denied from a lack of available funds, and that denial causes a balance due notice to be generated by DOR, to pay their balance due without paying a penalty or interest for sixty days. If the balance due is not paid within sixty days, the penalty and interest would still be owed.

DOR notes that tax credits can be denied for various reasons. Many of the state tax credit programs have caps that are first come, first serve and taxpayers can be denied if their claim is

filed later than others. Additionally, a balance due can be caused from an intentional disregard of rules and regulations which result in a deficiency. This proposal would require DOR to provide a grace period even when the taxpayer willful files a return that results in a balance due.

If the intent is to allow for a grace period only on apportioned tax credits, DOR notes there are four such credits. They are the Biodiesel Retailers, Champion for Children, Ethanol Retailers, and Food Pantry tax credit programs. These credits became apportioned credits because the annual cap was placed on the redemptions rather than on the issuance of the credits as is practice.

Apportioned credits allow people to apply for the tax credit and then the amount of the credit is adjusted downward should the number of credits redeemed exceed the cap. This practice results in taxpayers not knowing the amount of credit they are to receive, and unless the taxpayer pays their whole tax liability without regard for the tax credit, they have the potential to get an “assessment of unpaid tax notice” from DOR for the outstanding balance not covered by the credit.

DOR notes the Champion for Children tax credit program already grants DOR the authority to notify taxpayers and to give those taxpayers a sixty-day grace period to make an additional payment should their account require it. They are allowed this grace period only if their unpaid balance is a result of the credit being applied at a lesser rate. Therefore, this proposal would not impact the Champion for Children program.

DOR notes that the Food Pantry program does not allow for such a grace period. At this time, DOR notifies the taxpayer of the adjustment and then is required to assess penalties and interest. It appears this proposal attempts to allow DOR to give them a grace period. DOR assumes this would have minimal impact of less than \$10,000 annually.

DOR notes that the Ethanol and Biodiesel Retailers credits have not been apportioned as the number of credits claimed is currently less than the cap amount. However, this proposal could impact them in the near future.

Officials from the **Office of Administration – Budget & Planning (B&P)** assume this proposal would waive any addition to tax, interest, and penalties on taxes due because of tax credits being apportioned, if the resulting tax due is paid within 60 days. B&P notes that this would only apply to tax credits that are apportioned among taxpayers when redemptions are greater than the amount allowed per statute or appropriation.

B&P notes that currently taxpayers are encouraged to remit their full tax liability, calculated before a tax credit, in case their tax credit claim is denied. However, based on additional information taxpayers are not actually able to remit a payment above the balance due amount shown on their original return until that amount has been amended by DOR. Therefore, taxpayers receiving apportioned credits end up with a tax due notice, with interest and penalties currently levied on the overdue amount.

Based on information provided by DOR, this provision could reduce TSR by an unknown, likely minimal, amount.

Oversight notes that B&P and DOR both assume the fiscal impact stemming from §143.511 would be minimal. Therefore, Oversight will reflect a zero impact in the fiscal note.

§143.591 - Electronic Filing of W-2 Returns

Officials from the **Department of Revenue (DOR)** assume this proposal starting January 1, 2027, would require an employer with 10 or more employees to file the returns for tax withholding electronically with DOR. Currently only those employers with 250 or more employees are required to file electronically. The Internal Revenue Service began with tax year 2023 requiring all employers with 10 or more employees to file electronically with them.

DOR would need to update the Form 4282 and W-2 form at a cost of \$2,200 each. DOR also would need to update the website and computer program at a cost of \$1,887. DOR would also need to notify registered businesses through various means.

Oversight does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by the DOR.

In response to the similar legislation, HB 1919 (2026), officials from the **Office of Administration - Budget and Planning (B&P)** assumed this proposal will not impact: - TSR - The calculation under Article X, Section 18(e) - B&P.

Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for this agency.

§143.621 - Protest Tax Deficiencies

Officials from the **B&P** assume this provision would allow taxpayers to claim a refund for all tax, interest, additions, and/or penalties related to a deficiency that was later determined to be in error. This allowance does not require taxpayers to have timely filed a protest with DOR before claiming such refund. To the extent that this increases refund payments, this provision could decrease TSR and GR.

Officials from the **Department of Revenue (DOR)** assume this provision amends Section 143.621 to add a new subsection. This subsection allows for a taxpayer who has paid a deficiency and any interest, additions, or penalties attributable to this deficiency, which is later found to be erroneous, to be entitled to a refund of such amounts paid regardless of whether the taxpayer timely filed a protest with the Director.

DOR is unable to determine a fiscal impact from this proposal as it is predicated on taxpayers not paying the correct amount of tax when they originally file their tax return.

Oversight is unable to determine how many tax deficiencies paid by taxpayers have the potential to be erroneous. Oversight assumes any potential refunds would be paid to the taxpayer and potentially impact general revenue. Therefore, Oversight will reflect a \$0 or unknown cost to general revenue to account for any potential refunds sought by the taxpayer from this provision. Oversight notes the following according to the Department of Revenue's 2024 Annual [Report](#):

Fiscal Year	Individual Income Tax Collected	Individual Income Tax Refunds
FY 2024	\$9,066,281,176	\$1,176,324,865

Oversight assumes the amount of tax, interest, additions, and penalties potentially refunded under this proposal could exceed (\$250,000).

§143.971 - Public School District on Return

Officials from the **Department of Revenue (DOR)** assume this provision would require DOR to add a line to the income tax return asking people to name the school district in which they reside. DOR notes that adding a line to the return would cost \$2,200, changes to the website, instructions and computer programming at a cost of \$1,887.

DOR notes they do not need this information to process the return, and this proposal does not require them to do anything with the information. DOR notes that the collection of information on tax returns is confidential and cannot be shared with any person, organization or agency outside the department. This proposal does not institute a punishment for failing to provide this information and therefore, DOR would process the return even if a taxpayer chooses to leave the line blank.

Oversight will reflect the costs for form and programming changes as provided by the Department of Revenue.

Officials from the **B&P** assume this provision will not impact TSR or the calculation under Article X, Section 18(e). B&P defers to DOR for administrative costs.

<u>FISCAL IMPACT – State Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
GENERAL REVENUE			
<u>Revenue Loss</u> – (§143.121) Income tax subtraction for military income p.5	\$0	(Unknown)	(Unknown)
<u>Revenue Loss</u> – (§143.121.10) Increased number of taxpayers claiming deduction p.5	(Unknown)	(Unknown)	(Unknown)
<u>Cost</u> – DOR (§§143.121.10, 143.511, 143.591, 143.621, 143.971) Forms and programming updates p.5-6	(\$59,362)	\$0	\$0
<u>Cost</u> – DOR (§143.621) Refunds for Erroneous Income Tax Deficiencies p.6	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(Could exceed \$59,362)	(Unknown)	(Unknown)

<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

A direct fiscal impact on small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

MILITARY INCOME TAX EXEMPTION (Section 143.121)

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.

BEGINNING FARMER INCOME TAX DEDUCTION (Section 143.121)

Current law authorizes an income tax deduction for certain income received for the sale or lease of farmland to beginning farmers. This bill adds a definition of "taxpayer" to such deduction.

TAX RETURNS (Sections 143.511, 143.591, and 143.971)

Current law provides that the date for filing income tax returns must be the 15th day of the fourth month following the close of the taxpayer's taxable year. This bill provides that such date must be the date prescribed for the filing of federal tax returns (Section 143.511).

Currently, an employer with at least 250 employees must electronically submit a tax return that indicates the amount of taxes withheld on wages in the previous tax year by January 31.

Beginning January 1, 2027, the bill changes the number of employees to at least 10. This bill provides that tax return forms for all tax years beginning on or after January 1, 2026, must indicate the name of the public school district in which the taxpayer resides.

TAX DEFICIENCIES (Sections 143.512 and 143.621)

This bill provides that, if a taxpayer has an income tax balance due because of a full or partial denial of a tax credit, the taxpayer must not be held liable for any addition to tax, penalty, or interest on that amount of the balance due. The bill applies if the only reason for the denial is due to the tax credit reaching its maximum amount for the relevant year, as specified in the bill.

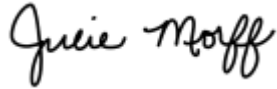
This bill provides that a taxpayer that has paid a deficiency and any interest, additions to tax, or penalties attributable to such deficiency that is subsequently found to be erroneous, regardless of whether the taxpayer has timely filed a protest with the Director of Revenue, must be entitled to a refund in the amount of the deficiency and any interest, additions to tax, or penalties attributable to such deficiency that were paid by the taxpayer. The refund must be paid as provided in current law.

There is a delayed effective date for certain sections in the bill.

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 Administration – Budget & Planning
Department of Revenue



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April 14, 2026



Jessica Harris
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