

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4055H.011  
 Bill No.: HB 1999  
 Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Department of Revenue; Education, Elementary and Secondary; Teachers  
 Type: Original  
 Date: January 18, 2022

Bill Summary: This proposal authorizes an income tax deduction for certain teachers and paraprofessionals.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2027)
General Revenue Fund *	\$0	(\$52,872,148 - \$53,886,504)	(\$103,563,670 - \$105,592,381)	(\$194,913,102 - \$211,085,370)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>(\$52,872,148 - \$53,886,504)</b>	<b>(\$103,563,670 - \$105,592,381)</b>	<b>(\$198,913,102 - \$211,085,370)</b>

\*This proposal has a sunset clause of 6 years after the effective date.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2027)
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2027)
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2027)
FTE Changes DOR	0 FTE	2 FTE	2 FTE	2 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>0 FTE</b>	<b>2 FTE</b>	<b>2 FTE</b>	<b>2 FTE</b>

- 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.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2027)
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**FISCAL ANALYSIS**

**ASSUMPTION**

Officials from the **Missouri Department of Revenue (DOR)** note that starting with tax years beginning January 1, 2023, for the purposes of calculating Missouri taxable income, a percentage of the income received by a taxpayer as salary or compensation for their service as a teacher or paraprofessional may be deducted from their Missouri adjusted gross income. Such income shall be deducted as follows:

- (a) For the tax year beginning on or after January 1, 2023, twenty-five percent of such income;
- (b) For the tax year beginning on or after January 1, 2024, fifty percent of such income;
- (c) For the tax year beginning on or after January 1, 2025, seventy-five percent of such income; and
- (d) For all tax years beginning on or after January 1, 2026, one hundred percent of such income.

This proposal allows the teacher to work for a public, private or charter school. Using information from the U. S. Bureau of Labor Statistics, and the 2020 Occupational Employment Statistics Survey, it was determined that 96,603 teachers and paraprofessionals that would qualify for this tax deduction. Their combined salary equals \$4,057,422,630 (avg. of \$42,001).

DOR notes a deduction is not a dollar for dollar loss but is a reduction based on the individual income tax rate at the time. While this proposal begins with tax year 2023, the returns claiming the deduction will not be filed until January 1, 2024 (FY 2024).

Tax Rate	Tax Year / Deduction Allowance					
	2023 (FY24) 25%	2024 (FY25) 50%	2025 (FY26) 75%	2026 (FY27) 100%	2027 (FY28) 100%	2028 (FY29) 100%
5.30%	\$53,760,850					
5.20%	\$52,746,494	\$105,492,988	\$158,239,483	\$210,985,977	\$210,985,977	\$210,985,977
5.10%		\$103,464,277	\$155,196,416	\$206,928,554	\$206,928,554	\$206,928,554
5.00%			\$152,153,349	\$202,871,132	\$202,871,132	\$202,871,132
4.90%				\$198,813,709	\$198,813,709	\$198,813,709
4.80%					\$194,756,286	\$194,756,286

This will require another line be added to the MO-1040 form and changes be made to the individual income tax filing system so the deduction can be made from Missouri adjusted gross income for computing Missouri taxable income. These changes are estimated at \$8,386. This change would require DOR to hire additional FTE if the number of errors or number of pieces of correspondence equal those to justify additional FTE.

- 1 FTE Revenue Processing Technician for every 14,700 errors created
- 1 FTE Revenue Processing Technician for every 5,700 pieces of correspondence generated

Officials from the **Office of Administration - Budget and Planning (BAP)** assume this proposal will reduce TSR by \$194,756,286 once this proposal, SB 509 (2014), and SB 153 (2021) have fully implemented.

**BAP** notes this proposal will impact the calculation under Article X, Section 18(e).

Beginning with tax year 2023, teachers and paraprofessionals shall be granted an income tax deduction for salary or compensation related to being a teacher or paraprofessional. The percentage of income deductible under this proposal will be 25% in tax year 2023, 50% in tax year 2024, 75% in tax year 2025, and 100% in all tax years on and after 2026. B&P notes that while the deduction will begin for tax year 2023, the impact to TSR and GR will not occur until taxpayers file their annual return in FY24.

Teachers are defined as those holding a certificate of license to teach in Missouri. Paraprofessionals must possess at least 60 hours of college credit or has passed the Paraprofessional or ParaPro Assessment and who works directly under the supervision of a licensed teacher. In addition, in order to qualify for the deduction both teachers and paraprofessionals must work in elementary or secondary education. This deduction shall be granted for all public, private, and charter teachers and paraprofessionals.

Based on data published by the Bureau of Labor Statistics during 2020 there were approximately 96,603 individuals who may qualify for this deduction with a median salary of approximately \$53,859. Therefore, B&P estimates that up to \$4,057,422,630 in individual income may qualify for this deduction. However, deductions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from SB 509 (2014) and SB 153 (2021).

	Tax Year (Fiscal Year)					
Tax Rate	2023 (FY24)	2024 (FY25)	2025 (FY26)	2026 (FY27)	2027 (FY28)	2028 (FY29)
	25%	50%	75%	100%	100%	100%
5.30%	\$53,760,850					
5.20%	\$52,746,494	\$105,492,988	\$158,239,483	\$210,985,977	\$210,985,977	\$210,985,977
5.10%		\$103,464,277	\$155,196,416	\$206,928,554	\$206,928,554	\$206,928,554
5.00%			\$152,153,349	\$202,871,132	\$202,871,132	\$202,871,132
4.90%				\$198,813,709	\$198,813,709	\$198,813,709
4.80%					\$194,756,286	\$194,756,286

B&P estimates that this proposal may reduce TSR and GR by \$53,760,850 (top tax rate 5.3%) or by \$52,746,494 (top rate 5.2%) in FY24. Once this proposal, SB 509 (2014), and SB 153 (2021) have fully phased-in, this proposal may reduce TSR and GR by up to \$194,756,286 annually.

**Oversight** will show B&P and DOR's projected fiscal estimated impacts of this proposal throughout the implementation of the tax rate reductions from SB 509 (2014) and SB 153 (2021) to show the maximum low and high impact of the proposal.

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

**Oversight** assumes JCAR will be able to administer any rules from this proposed legislation with existing resources.

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposed legislation. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process.

Officials from the **Missouri Department of Elementary and Secondary Education** do not anticipate this proposed legislation will cause a fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will not report a fiscal impact for this organization.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2027)
<b>GENERAL REVENUE</b>				
<u>Revenue Reduction - §143.1400 Income tax deduction for teachers &amp; paraprofessionals, p. 3-4</u>	\$0	(\$52,746,494 - \$53,760,850)	(\$103,464,277 - \$105,492,988)	(\$198,813,709 - \$210,985,977)
<u>Costs – DOR §143.1400, p. 3</u>				
Personal Service	\$0	(\$53,183)	(\$53,714)	Could exceed (\$53,714)
Fringe Benefits	\$0	(\$44,479)	(\$44,672)	Could exceed (\$44,672)
Equipment & Expense	\$0	(\$27,992)	(\$1,007)	Could exceed (\$1,007)
Total <u>Costs – DOR</u>	\$0	(\$125,654)	(\$99,393)	Could exceed (\$99,393)
FTE Changes DOR	0 FTE	2 FTE	2 FTE	2 FTE
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	\$0	(\$52,872,148 - \$53,886,504)	(\$103,563,670 - \$105,592,381)	(\$198,913,102) - \$211,085,370)

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2027)
	\$0	\$0	\$0	\$0

FISCAL IMPACT – Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

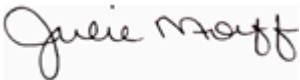
FISCAL DESCRIPTION

This proposal authorizes an income tax deduction for certain teachers and paraprofessionals.

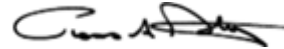
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration - Budget and Planning  
Department of Revenue  
Department of Elementary and Secondary Education  
Office of the Secretary of State  
Joint Committee on Administrative Rules



Julie Morff  
Director  
January 18, 2022



Ross Strobe  
Assistant Director  
January 18, 2022