

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1562H.011  
 Bill No.: HB 727  
 Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Revenue,  
 Department of; Education, Elementary and Secondary; Teachers  
 Type: Original  
 Date: February 22, 2021

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

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2026)
General Revenue Fund*	\$0	Less than or greater than (\$61,836,772)	Less than or greater than (\$123,531,752)	Less than or greater than (\$242,305,728)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>Less than or greater than (\$61,836,772)</b>	<b>Less than or greater than (\$123,531,752)</b>	<b>Less than or greater than (\$242,305,728)</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 2022	FY 2023	FY 2024	Fully Implemented (FY 2026)
<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 2022	FY 2023	FY 2024	Fully Implemented (FY 2026)
<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 2022	FY 2023	FY 2024	Fully Implemented (FY 2026)
General Revenue – 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 2022	FY 2023	FY 2024	Fully Implemented (FY 2026)
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation will reduce Total State Revenue (TSR) by \$237,543,092 once this proposed legislation and the provisions of [SB 509 \(2014\)](#) are fully implemented. B&P further states this proposed legislation will impact the calculation under Article X, Section 18(e).

Beginning with Tax Year 2022, teachers and paraprofessionals shall be granted in 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 2022, 50% in Tax Year 2023, 75% in Tax Year 2024, and 100% in all tax years on and after 2026. B&P notes that while the deduction will begin for Tax Year 2022, the impact to TSR and General Revenue (GR) will not occur until taxpayers file their annual return in Fiscal Year 2023.

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 have 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 2019 there were approximately 101,228 individuals who may qualify for this deduction with an average salary of approximately \$46,012. Therefore, B&P estimates that up to \$4,657,707,690 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).

Tax Rate	Tax Year / Deduction Allowance			
	2022 (FY23)	2023 (FY24)	2024 (FY25)	2025 (FY26)
	25%	50%	75%	100%
5.40%	\$62,879,054	\$125,758,108	\$188,637,161	\$251,516,215
5.30%	\$61,714,627	\$123,429,254	\$185,143,881	\$246,858,508
5.20%	-	\$121,100,400	\$181,650,600	\$242,200,800
5.10%	-	-	\$178,157,319	\$237,543,092

B&P estimates that this proposed legislation may reduce TSR and GR by \$62,879,054 (top tax rate 5.4%) or by \$61,714,627 (top rate 5.3%) in Fiscal Year 2023. Once this proposed legislation

and SB 509 (2014) have both fully phased-in, this proposed legislation may reduce TSR and GR by up to \$237,543,092 annually.

Officials from the **Missouri Department of Revenue (DOR)** state, starting with tax years beginning January 1, 2022, 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) Beginning on or after January 1, 2022, twenty-five percent of such income;
- (b) Beginning on or after January 1, 2023, fifty percent of such income;
- (c) Beginning on or after January 1, 2024, seventy-five percent of such income; and
- (d) Beginning on or after January 1, 2025, one hundred percent of such income.

This proposed legislation allows the teacher to work for a public, private or charter school. Using information from the U. S. Bureau of Labor Statistics, and the 2019 Occupational Employment Statistics Survey, it was determined that 101,228 teachers and paraprofessionals that would qualify for this tax deduction. Their combined salary equals \$4,657,707,690.

Tax Year/Fiscal Year	% of Salary Eligible for Deduction	Total Amount of Salary Eligible for Deduction
TY 2022/FY 2023	25%	\$1,164,426,923
TY 2023/FY 2024	50%	\$2,328,853,845
TY 2024/FY 2025	75%	\$3,493,280,768
TY 2025/FY 2026	100%	\$4,657,707,690

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 proposed legislation begins with Tax Year 2022, the returns claiming the deduction will not be filed until January 1, 2023 (Fiscal Year 2023).

Tax Rate	Tax Year / Deduction Allowance			
	2022 (FY23) 25%	2023 (FY24) 50%	2024 (FY25) 75%	2025 (FY26) 100%
5.40%	(\$62,879,054)	(\$125,758,108)	(\$188,637,161)	(\$251,516,215)
5.30%	(\$61,714,627)	(\$123,429,254)	(\$185,143,881)	(\$246,858,508)
5.20%	-	(\$121,100,400)	(\$181,650,600)	(\$242,200,800)
5.10%	-	-	(\$178,157,319)	(\$237,543,092)

DOR anticipates the need for one (1) FTE Associate Customer Service Representative for every 14,700 errors created, one (1) FTE Associate Customer Service Representative for every 5,700 pieces of correspondence, one (1) temporary employee for the new line item and anticipate costs for forms and programming changes.

**Oversight** notes the estimated number of taxpayers that could qualify for this deduction is in excess of the threshold(s) established by DOR for additional FTE. Therefore, Oversight will utilize DOR's administrative costs being paid from GR. Oversight notes the deduction would begin for all tax years beginning on or after January 1, 2022. Oversight notes Tax Year 2022 tax returns would not be filed until after January 1, 2023 (Fiscal Year 2023). Therefore, Oversight will report DOR's administrative cost(s) beginning in Fiscal Year 2023. Oversight assumes, though, that the part time employee required by DOR would not receive fringe benefits and that the equipment and expense(s) for the part time employee can be absorbed by DOR.

**Oversight** analyzed data from the U.S. Bureau of Labor Statistics which supports the impacts estimated by B&P and DOR. Oversight notes, though, the estimated impacts are calculated using an average wage for each of the following professional titles:

- Kindergarten Teachers, Except Special Education
- Elementary School Teachers, Except Special Education
- Middle School Teachers, Except Special Education
- Secondary School Teachers, Except Special and Career/Technical Education
- Career/Technical Education Teachers/Secondary School
- Special Education Teachers, Kindergarten and Elementary School
- Special Education Teachers, Middle School
- Special Education Teachers, Secondary School
- Special Education Teachers, All Other
- Adult Basic Education, Adult Secondary Education, and English and Second Language Instructors
- Self-Enrichment Teachers
- Substitute Teachers, Short Term
- Tutors and Teachers and Instructors, All Other
- Instructional Coordinators
- Teaching Assistants, Except Postsecondary

**Oversight** notes the current Individual Income Tax rate is 5.4% (with three (3) additional rate reductions pending pursuant to SB 509 – 2014). As stated in the fiscal note for [HB 555 \(2021\)](#), B&P assumes, based on current revenue forecasts and average revenue growth, that revenues in Fiscal Year 2021, Fiscal Year 2024, and Fiscal Year 2025 will reach the SB 509 (2014) growth trigger requirement for reductions to the top rate of tax. Therefore, the top rate of tax will be reduced by 0.1% in Tax Year(s) 2022 (5.3%), 2025 (5.2%), and 2026 (5.1%) under SB 509 (2014).

**Oversight** notes Tax Year 2022 tax returns would not be filed until after January 1, 2023 (Fiscal Year 2023), Tax Year 2025 tax returns would not be filed until after January 1, 2026 (Fiscal Year 2026), and Tax Year 2026 tax returns would not be filed until after January 1, 2027 (Fiscal Year 2027).

**Oversight** notes the tax deduction created is for all tax years beginning on or after January 1, 2022. Tax Year 2022 tax returns would not be filed until after January 1, 2023 (Fiscal Year 2023).

Therefore, for purposes of this fiscal note, Oversight will report a revenue reduction equal to an amount “Less than or greater than” (accounting for the averages used to calculate the impact) the amount(s) estimated by B&P and DOR, beginning in Fiscal Year 2023 and becoming fully implemented in Fiscal Year 2026.

Oversight notes this proposed legislation will sunset six years after its effective date unless reauthorized by the General Assembly.

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. 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 SOS for administrative rules is less than \$5,000. SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, 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 SOS can sustain with SOS's core budget. Therefore, 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 **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 **Missouri Department of Elementary and Secondary Education**, the **High Point R-III School District**, and the **Springfield R-XII School District** do not anticipate this proposed legislation will cause a fiscal impact on their organizations. Oversight does not have any information to the contrary. Therefore, Oversight will not report a fiscal impact for these organizations.

<u>FISCAL</u> <u>IMPACT – State</u> <u>Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2026)
<b>GENERAL REVENUE FUND</b>				
<u>Revenue</u> <u>Reduction –</u> Section 143.1400 – Tax Deduction For Teachers And Paraprofessionals	\$0	Less than or greater than (\$61,714,627)	Less than or greater than (\$123,429,254)	Less than or greater than (\$242,200,800)
<u>Cost – DOR –</u> Section 143.1400				
Personnel Services	\$0	(\$57,453)	(\$58,027)	(\$59,786)
Fringe Benefits	\$0	(\$43,270)	(\$43,464)	(\$44,058)
Equipment & Expense	\$0	(\$21,422)	(\$1,007)	(\$1,084)
Total Cost	\$0	(\$122,145)	(\$102,498)	(\$104,928)
FTE Change - DOR	0 FTE	2 FTE	2 FTE	2 FTE
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b>\$0</b>	<b><u>Less than or greater than (\$61,836,772)</u></b>	<b><u>Less than or greater than (\$123,531,752)</u></b>	<b><u>Less than or greater than (\$242,305,728)</u></b>

<u>FISCAL</u> <u>IMPACT –</u> <u>Local</u> <u>Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2026)
	<u>\$0</u>	<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.

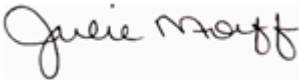
FISCAL DESCRIPTION

This bill provides an income tax deduction on the income received by any taxpayer for his or her services as a teacher or paraprofessional, as defined in the bill. Beginning January 1, 2022, the deduction will be worth 25% of such income. The deduction will be increased each year at 25% increments of such income, ending at 100% on January 1, 2025. The provisions of this bill sunset six years after the effective date.

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 Division  
Missouri Department of Revenue  
Missouri Department of Elementary and Secondary Education  
Missouri Secretary of State’s Office  
Joint Committee on Administrative Rules  
High Point R-III School District  
Springfield R-XIII School District



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