COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0294-02
Bill No.: SB 188
Subject: Retirement Systems and Benefits; Taxation and Revenue - Income
Type: Original
Date: February 10, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	($59,059,271)	($86,976,399)	($88,737,814)
Total Estimated Net Effect on General Revenue Fund	**($59,059,271)**	**($86,976,399)**	**($88,737,814)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on Other 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 2004	FY 2005	FY 2006
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this language makes the following changes to the public and private pension exemption:

1. Eliminates any pubic pension exemption effective January 1, 2004.

2. Effective January 1, 2002, the private pension exemption phase-in is eliminated for taxpayers under the age of 65 who meet the income threshold of $25,000 for single filers, $32,000 for married taxpayer and those filing head of household and $16,000 for married taxpayers filing separate. Therefore, all qualified individuals will be able to take the full $6,000 exemption.

3. Taxpayers 65 or older will receive the full $6,000 pension exemption, regardless of their income.

*Special note: Eliminating the phase-in effective January 1, 2002, will allow taxpayers to file amended returns and request refunds for the amount of tax paid on the pension under $6,000.

DOR assumes the number of taxpayers eligible for this subtraction is unknown at this time.

ASSUMPTION (continued)

However, the DOR estimates it will need at least one Tax Processing Tech I to process errors (one for every 30,000 errors generated) and one Tax Processing Tech I to process additional correspondence (one for every 3,000 additional pieces of correspondence) generated by this legislation. Any additional FTE will be requested through the normal budget process.

DOR assumes programming changes will be needed; however, the amount of programming cannot be estimated at this time. DOR assumes the Office of Administration, Budget and Planning will estimate the general revenue impact.

Oversight has, for fiscal note purposes only, changed the starting salary for the two Tax Processing Technicians to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Also, **Oversight** assumes DOR can make any programming changes necessary with existing resources.

Officials of the **Office of Administration, Division of Budget and Planning (BAP)** assume this proposal exempts all retirement benefits for anyone 65 and over from Missouri individual income tax.

BAP assumes there is no income limit on this deduction. The Spring 2001 Statistics of Income reports 453,631 returns claiming pension income in tax year 1999, the claimed per return was $12,463. Since the average pension income per return is $12,463, BAP assumes that each return will have the maximum $6,000 deduction. Two percent growth is assumed. From the total pension benefits the amount that can already be deducted under Section 143.124, RSMo is subtracted. The amount to be subtracted for the government pension deduction is from the 2002 Tax Expenditure Report. The fiscal note for HB 491 from the 1997 session shows that the amount subtracted for the private pension deduction should be $71.3 million in FY02, and will grow at 2% thereafter. A 6% marginal tax rate is assumed. BAP staff assumes that taxpayers will not adjust their withholdings in FY03 to take advantage of this exemption. BAP estimates the Revenue loss in FY04 to be $93.7 million and in FY05 to be $96.1 million.

Based on information from officials at the **Missouri State Employee Retirement (MOSERS)**, the **U.S. Census Bureau** and the **Social Security Administration (SSA)**, **Oversight** assumes the BAP revenue loss estimate for pension exemptions should be reduced by calculating the ratio of 65 and older to total retirees:

ASSUMPTION (continued)

MOSERS has 18,196 retirees, with 13,911 65 or older (13,911/18,199 = 76%)
U. S. Census Bureau lists 6,296 private pensions with 3,916 (3,916/6,296 = 62%)
Seventy-three percent (73%) of SSA recipients are age 65 or older

Then use the average of these (70%) to adjust the revenue loss estimated by BAP. Therefore, **Oversight** estimates the revenue loss for FY05 to be $67.3 million and in FY06 to be $68.6 million.

Oversight estimates a loss to the General Revenue Fund of $16.4 million for FY 2004 due to the possibility of reduced withholding and estimated income tax payments for five months of calendar year 2003. **Oversight** assumes 25% of Missouri taxpayers would adjust payments, however it should be noted that this amount could be less depending on taxpayers' awareness of the deductibility of retirement benefits in determining state income tax and their desire to adjust withholdings or estimated payments.

According to the 2003 Tax Expenditure Report, $8.6 million in public pension exemptions are estimated for FY05 and $8.4 million are estimated for FY06. **Oversight** assumes that if seventy percent (70%) of these exemptions are for 65 year olds and over, then thirty percent (30%) of these exemptions would be for under 65 year old recipients. The revenue impact from eliminating the public pension exemption for under 65 year olds is estimated to be a positive $2.6 million in FY05 and $2.5 million in FY06.

Oversight assumes the revenue loss for the private pension exemptions for under 65 year old taxpayers will be $21 million for FY04 (2002 tax year amended returns), $21.6 million for FY04, $22.2 million for FY05 and $22.6 million for FY06. This is calculated by assuming thirty percent (30%) of the revenue loss estimated by BAP is for under 65 year old taxpayers. Then, using the ratio of private pension exemptions to total pension exemptions of 77%, **Oversight** assumes the under 65 year old taxpayers could be further reduced to under 65 year old taxpayers with private pension exemptions.

This legislation will decrease Total State Revenues.

FISCAL IMPACT - State Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
Income - General Revenue			
Elimination of Public Pension Exemption (under 65 years)	$0	$2,580,000	$2,520,000
Loss - General Revenue			
Pension Exemptions (65 yrs and older)	($16,400,000)	($67,300,000)	($68,600,000)
Private Pension Exemption (under 65)	($21,600,000)	($22,200,000)	($22,600,000)
Amended returns for tax year 2002	($21,000,000)	$0	$0
Loss to GR	($59,000,000)	($89,500,000)	($91,200,000)
Costs - Dept. of Revenue			
Personal Service	($32,042)	($39,411)	($40,396)
Fringe Benefits	($12,967)	($15,950)	($16,348)
Expense and Equipment	($14,262)	($1,038)	($1,070)
Total Costs - DOR	($59,271)	($56,399)	($57,814)
TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($59,059,271)**	**($86,976,399)**	**($88,737,814)**

FISCAL IMPACT - Local Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

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

DESCRIPTION

Under current law, public and private entity retirees may deduct up to $6,000 of pension allowances received each year if their income is not in excess of $32,000 for married or $25,000 for single taxpayers. This proposal removes the income limitation when a taxpayer reaches the age of 65 years, allowing the full $6,000 of retirement benefits to be deducted from state income tax regardless of income. Taxpayers under the age of 65 years will be allowed the $6,000 benefit deduction subject to the income limitations.

The bill has an effective date of 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
Missouri State Employee Retirement
U. S. Census Bureau
Social Security Administration

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