COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0358-01
Bill No.: SB 262
Subject: Taxation and Revenue - Income; Elderly; Retirement - State; Retirement systems and benefits
Type: Original
Date: March 11, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	$0	($350,139,284)	($360,504,497)
Total Estimated Net Effect on General Revenue Fund	**$0**	**($350,139,284)**	**($360,504,497)**

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 **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.

ASSUMPTION (continued)

In a response to HB 516, BAP assumed the similar bill would exempt all social security income from Missouri state income tax. This proposal would not impact BAP. The UMRC-Research Center has provided data that indicates that about $1.754 billion in social security benefits are currently being taxed in Missouri. Assuming a 6% marginal tax rate, the annual state revenue loss associated with this bill would be about $105.2 million. This data is for calendar year 2001. Assuming a 2% annual growth rate, the fiscal year losses are as follows:

FY 2004	$109.2
FY 2005	$111.4
FY 2006	$113.7

Oversight assumes BAP's estimate for the pension exemption is based on a maximum deduction of $6,000. However, this proposal does not limit the pension exemption to $6,000, therefore **Oversight** assumes there was $5.654 billion (453,631 returns x the average pension income per return of $12,463) in total pension benefits in Missouri for tax year 1999. Continuing with BAP's assumptions, a two percent growth rate is used to determine the pension benefits for succeeding years. The amount to be subtracted for the government and private pension deduction is from the 2002 Tax Expenditure Report. A six percent marginal tax rate is assumed.

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:

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 estimate. Therefore, **Oversight** estimates the revenue loss for FY 04 to be $235.6 million, FY05 to be $241 million and in FY06 to be $249 million for the pension exemption for taxpayers 65 years and older.

According to the 2003 Tax Expenditure Report, $8.6 million in public pension exemptions are estimated for FY 04 and 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

ASSUMPTION (continued)

impact from eliminating the public pension exemption for under 65 year olds is estimated to be a positive $2.6 million in FY 04 and FY05, and $2.5 million in FY06.

Officials of the **Department of Revenue (DOR)** state this legislation would exempt all public and private pensions. This legislation will require more taxpayers to file a Form MO-A. Also, DOR will now have to verify each deduction. Speed up will have to review the entire Form MO-A for just this line. DOR assumes it will need one Tax Season Temporary for every 140,000 additional MO-As that are filed, one Tax Processing Tech I for every 30,000 additional errors created by this legislation and one Tax Processing Tech I for every 3,000 additional pieces of correspondence received on this legislation.

Information Technology will have to make enhancements on the MINITS, Speed-up and Electronic Filing systems. DOR estimates that 1,384 hours of programming will be needed at a cost of $46,170.

Customer Assistance anticipates an increase in telephone calls and walk-ins. One Tax Collection Tech I will be needed for every additional 15,000 calls to the 751-3505 regarding pension exemption and adjusted notices of refund due to lack of documentation. DOR assumes a need for one Tax Collection Tech I for every 24,000 additional calls to 751-7200 on billings on denied pension exemption due to lack of documents and one Taxpayer Services Representative for every 5,193 additional walk-ins in the tax assistance centers.

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)	$0	($241,089,800)	($249,166,400)
Social Security Income Exemption	$0	($111,400,000)	($113,700,000)
Loss to GR	$0	($352,489,800)	($362,866,400)
Costs - Dept. of Revenue			
Personal Service (5 FTE & 1 temp)	$0	($109,427)	($111,968)
Fringe Benefits	$0	($44,285)	($45,313)
Expense and Equipment	$0	($29,602)	($816)
Programming	$0	($46,170)	$0
Total Costs - DOR	$0	($229,484)	($158,097)
TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**($350,139,284)**	**($360,504,497)**

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

This proposal exempts social security benefits as well as public and private pensions and retirement benefits from Missouri income tax for taxpayers sixty-five or older. Under the current law, a portion of these retirement benefits are exempted, with limitations on the amount of the exemption and those who qualify for the exemptions. This proposal removes those limitations and provides that after December 31, 2003, all of such retirement benefits shall be included as a subtraction to federal adjusted gross income on the Missouri personal income tax return.

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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