

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3757S.01I  
 Bill No.: SB 871  
 Subject: Taxation and Revenue - Income  
 Type: Original  
 Date: February 15, 2022

Bill Summary: This proposal modifies provisions relating to income tax exemptions for certain retirement benefits.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue Fund	\$0	Up to (\$521,240,048)	Up to (\$511,405,329)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>Up to (\$521,240,048)</b>	<b>Up to (\$511,405,329)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
<b>Total Estimated Net Effect on <u>Other</u> State Funds</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>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</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>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**FISCAL ANALYSIS**

**ASSUMPTION**

Officials from the **Department of Revenue (DOR)** state a taxpayer currently may be subject to a portion of their social security benefits, military pension and/or their public pension benefits being taxable. The taxability is based on the taxpayer’s filing status (single, head of household, or married filing joint) and their income level. This proposal beginning January 1, 2023, would exempt all these benefits regardless of the taxpayers filing status or income. DOR notes the returns for tax year 2023 would be filed starting in January 1, 2024.

Using IRS Individual Income and Tax Data for Tax Year 2019, DOR was able to estimate the projected loss to General Revenue from this proposal. The IRS collects data on the amount of pension and annuities money that are used in calculating AGI. DOR notes this amount does include both public and private pensions and well as military pensions. While this proposal would exempt the military pension and public pensions, it does not include private pensions. Since the Department was unable to determine the amount of private pensions and thus exclude that money from the calculations, DOR notes the projections below would be expected to be less than the stated amount.

**Loss by Provision**

Retirement Income Top Tax Rate	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%
Pensions/ Annuities	(\$354,852,246)	(\$348,156,920)	(\$341,461,595)	(\$334,766,270)	(\$328,070,944)	(\$321,375,619)
Social Security	(\$166,387,802)	(\$163,248,409)	(\$160,109,017)	(\$156,969,624)	(\$153,830,232)	(\$150,690,839)
Total GR Loss	(\$521,240,048)	(\$511,405,329)	(\$501,570,612)	(\$491,735,894)	(\$481,901,176)	(\$472,066,458)

**Loss by Fiscal Year**

Tax Rate	2023 (FY24)	2024 (FY25)	2025 (FY26)	2026 (FY27)	2027 (FY 28)	2028 (FY29)
5.30%	(521,240,048)					
5.20%	(511,405,329)	(511,405,329)	(511,405,329)	(511,405,329)	(511,405,329)	(511,405,329)
5.10%		(501,570,612)	(501,570,612)	(501,570,612)	(501,570,612)	(501,570,612)
5.00%			(491,735,894)	(491,735,894)	(491,735,894)	(491,735,894)
4.90%				(481,901,176)	(481,901,176)	(481,901,176)
4.80%					(472,066,458)	(472,066,458)

ASSUMPTION (continued)

DOR notes this would involve removing a line on the MO-A, Part 3, Sections A and C, and would involve programming changes to remove the phase-out. These changes are estimated at \$3,596.

**Oversight** notes that the Department of Revenue assumes this proposal will require programming changes estimating \$3,596. **Oversight** assumes **DOR** is provided with core funding to handle a certain amount of activity each year. **Oversight** assumes **DOR** could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, **DOR** could request funding through the appropriation process..

**Section 143.124 - Public Pension Exemption**

Officials from the **Office of Administration - Budget and Planning (B&P)** state this section would eliminate the income limits for the individual income tax exemption for public pensions beginning with tax year 2023. Currently taxpayers who are married filing joint may exempt 100% of their public pension income, if their Missouri Adjusted Gross Income (MAGI) equal to or less than \$100,000. All other taxpayers may exempt 100% of their public pension income if their MAGI is equal to or less than \$85,000.

Based on data published by the IRS, B&P estimates that this section may exempt up to \$1,282,541,987 in pension and annuity payments for taxpayers filing single, \$318,057,970 for taxpayers filing head of household, and \$5,094,725,747 for married filing joint taxpayers; for a total of up to \$6,695,325,391 in income exempted under this section. B&P notes that some of these pension and annuity payments may remain taxable, if they are not public pensions / annuities. Therefore, B&P will reflect the loss from this section as “up to”.

However, exemptions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P show the estimated impacts throughout the implementation of the tax rate reductions from SB 509 (2014) and SB 153 (2021). Consequently, B&P estimates that this section could reduce TSR and GR by up to \$354,852,246 (top tax rate 5.3%) or by up to \$348,156,920 (top tax rate 5.2%) in FY24. Once SB 509 (2014)

and SB 153 (2021) have fully implemented, this section could reduce TSR and GR by up to \$321,375,619 annually.

**Section 143.125 Social Security Exemption**

**B&P** states this section would eliminate the income limits for the individual income tax exemption for social security payments beginning with tax year 2023. Currently taxpayers who are married filing joint may exempt 100% of their social security income, if their Missouri

Adjusted Gross Income (MAGI) equal to or less than \$100,000. All other taxpayers may exempt 100% of social security income if their MAGI is equal to or less than \$85,000.

**B&P** notes based on data published by the IRS, B&P estimates that this section may exempt \$653,230,5673 in social security payments for taxpayers filing single, \$163,043,061 for taxpayers filing head of household, and \$2,323,118,768 for married filing joint taxpayers; for a total of \$3,139,392,486 in income exempted under this section.

However, exemptions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P show the estimated impacts throughout the implementation of the tax rate reductions from SB 509 (2014) and SB 153 (2021).

B&P estimates that this section could reduce TSR and GR by \$166,387,802 (top tax rate 5.3%) or by \$163,248,409 (top tax rate 5.2%) in FY24. Once SB 509 (2014) and SB 153 (2021) have fully implemented, this section could reduce TSR and GR by \$150,690,839 annually.

Summary

B&P estimates that this proposal could reduce TSR and GR by up to \$521,240,048 (top tax rate 5.3%) or by up to \$511,405,329 (top tax rate 5.2%) in FY24. Once SB 509 (2014) and SB 153 (2021) have fully implemented, this proposal could reduce TSR and GR by up to \$472,066,458 annually. Table 1 shows the estimated loss by provision, while Table 2 shows the estimated loss by tax and fiscal year.

Table 1: Revenue Loss by Provision

Retirement Income	Top Tax Rate					
	5.3%	5.2%	5.1%	5.0%	4.9%	4.8%
Pensions/Annuities	\$354,852,246	\$348,156,920	\$341,461,595	\$334,766,270	\$328,070,944	\$321,375,619
Social Security	\$166,387,802	\$163,248,409	\$160,109,017	\$156,969,624	\$153,830,232	\$150,690,839
Total GR Loss	\$521,240,048	\$511,405,329	\$501,570,612	\$491,735,894	\$481,901,176	\$472,066,458

Table 2: Revenue Loss by Fiscal Year

Tax Rate	Tax Year (Fiscal Year)					
	2023 (FY24)	2024 (FY25)	2025 (FY26)	2026 (FY27)	2027 (FY 28)	2028 (FY29)
5.30%	\$521,240,048					
5.20%	\$511,405,329	\$511,405,329	\$511,405,329	\$511,405,329	\$511,405,329	\$511,405,329
5.10%		\$501,570,612	\$501,570,612	\$501,570,612	\$501,570,612	\$501,570,612
5.00%			\$491,735,894	\$491,735,894	\$491,735,894	\$491,735,894
4.90%				\$481,901,176	\$481,901,176	\$481,901,176
4.80%					\$472,066,458	\$472,066,458

ASSUMPTION (continued)

**Oversight** will utilize 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.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
<b>GENERAL REVENUE</b>			
<u>Revenue Reduction</u> - §143.124 Allowance of maximum deduction to all taxpayers	\$0	Up to (\$521,240,048)	Up to (\$511,405,329)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b>\$0</b>	<b>Up to (\$521,240,048)</b>	<b>Up to (\$511,405,329)</b>

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

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

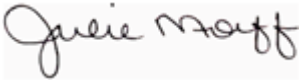
Current law allows taxpayers with certain filing status and adjusted gross income below certain thresholds to deduct 100% of certain retirement and Social Security benefits from the taxpayer's Missouri adjusted gross income, with a reduced deduction as the taxpayer's adjusted gross income increases. For all tax years beginning on or after January 1, 2023, this act allows the maximum deduction to all taxpayers regardless of filing status or adjusted gross income.

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

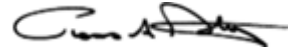
SOURCES OF INFORMATION

Office of the Secretary of State  
 Department of Revenue  
 Office of Administration - Budget and Planning

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