COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3279-02
Bill No.: HB 934
Subject: Retirement Systems and Benefits; Taxation and Revenue - Income; Senior Citizens
Type: Original
Date: January 8, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	($22,770,000)	($120,131,460)	($123,003,717)
Total Estimated Net Effect on General Revenue Fund	**($22,770,000)**	**($120,131,460)**	**($123,003,717)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
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 2005	FY 2006	FY 2007
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Public School and Non-teacher School Employee Retirement Systems of MO** assume this proposal would not fiscally impact their agency.

Officials of the **Department of Revenue (DOR)** state that Personal Tax anticipates verification of any information submitted by the taxpayers claiming the deduction set out by this legislation. Personal Tax will have the MINITS and Speedup systems modified to allow additional lines on the MO-A. There are approximately 185,000 pensioners with income less than $40,000 – DOR assumes there are at least that many with income over $40,000. Key entry of the new line and verification of the documentation on the MO-A will require 4 Tax Season Temporary Employees. DOR anticipates errors and correspondence will be created by this legislation. Personal Tax will need 1 Tax Processing Tech I for every 15,000 additional errors generated and 1 Tax Processing Tech I for every additional 3,000 pieces of correspondence.

The MINITS and Speedup systems will need to be modified to handle this legislation. DOR estimates that it will require 4 programmers two months to complete, or 1,384 hours at a cost of $46,170.

Customer Assistance anticipates the need of one Tax Collection Tech for every 15,000 calls a year received on the income tax hotline regarding the pension exemption and adjusted notices of

ASSUMPTION (continued)

refund due to lack of documentation. One Tax Collection Tech will be needed for every 24,000 calls a year to the delinquent line regarding billings on denied pension exemptions due to lack of documentation.

In response to a prior similar proposal, DOR requested two FTE to handle the increase workload from the legislation. Therefore, **Oversight** will include the temporary tax assistant employees and two FTE in this proposal.

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 necessary modifications to Form MO-A 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, beginning January 1, 2005.

BAP assumes that according to data supplied by the Department of Revenue, $3.5 billion was reported in pension income in tax year 2002. Of this, $1.4 billion was deducted. The marginal income loss resulting from this proposal is $2.1 billion. Assuming 2% inflation for 3 years, the marginal income loss in 2005 is $2.2 billion. Using a 6% marginal tax rate, this would lead to a revenue loss of $132 million. However, not all pension earners are over age 65. Based on previous data provided by Legislative Oversight, about 70% of retirees meet this age requirement. Therefore, BAP estimates a general and total state revenue loss of $92.4 million from this proposal in fiscal year 2006. There may be some revenue loss in 2005 if individuals adjust their withholdings in expectation of these benefits.

This proposal would not impact BAP.

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 20,084 retirees, with 13,348 retirees 65 or older (13,348/20,084 = 66%)
U. S. Census Bureau lists 9,002,000 private pensions with 6,555,000 recipients 65 years old or older (6,555,000/9,002,000 = 73%)
Sixty-eight percent (68%) of SSA recipients are age 65 or older

Then use the average of these (69%) to adjust the revenue loss estimated by BAP of $132 million for FY05. Therefore, **Oversight** estimates the revenue loss for FY06 to be $91 million and in FY07 to be $92.9 million.

Oversight estimates a loss to the General Revenue Fund of $22.8 million for FY 2005 due to the possibility of reduced withholding and estimated income tax payments for five months of calendar year 2004. **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, $8.4 million in public pension exemptions are estimated for FY06 and $8.1 million are estimated for FY07. **Oversight** assumes that if sixty-nine percent (69%) of these exemptions are for 65 year olds and over, then thirty-one percent (31%) 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 FY06 and $2.51 million in FY07.

Oversight assumes the revenue loss for the private pension exemptions for under 65 year old taxpayers will be $31.5 million for FY06 and $32.5 million for FY07. This is calculated by assuming thirty-one percent (31%) of the revenue loss estimated by BAP ($132 million) is for under 65 year old taxpayers. Then, using the ratio of private pension exemptions to total pension exemptions of 77% and 78%, respectively. **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 2005 (6 Mo.)	FY 2006	FY 2007
GENERAL REVENUE FUND			
Income - General Revenue			
Elimination of Public Pension Exemption (under 65 years)	$0	$2,604,000	$2,510,000
Loss - General Revenue			
Pension Exemptions (65 yrs and older)	($22,770,000)	($91,080,000)	($92,874,000)
Private Pension Exemption (under 65)	$0	($31,508,000)	($32,549,000)
Loss to GR	($22,770,000)	($122,588,000)	($125,423,000)
Costs - Dept. of Revenue			
Personal Service	$0	($71,812)	($72,828)
Fringe Benefits	$0	($16,838)	($17,259)
Expense and Equipment	$0	($12,640)	($630)
Programming	$0	($46,170)	$0
Total Costs - DOR	$0	($147,460)	($90,717)
TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($22,770,000)**	**($120,131,460)**	**($123,003,717)**

FISCAL IMPACT - Local Government	FY 2005 (6 Mo.)	FY 2006	FY 2007
	$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, 2005.

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
Public School and Non-teacher School Employee Retirement Systems of MO
Missouri State Employee Retirement
U. S. Census Bureau
Social Security Administration

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