

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4690-01
Bill No.: HB 1648
Subject: Taxation and Revenue - Income: Retirement Income
Type: Original
Date: April 30, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	(\$7,498,416)	(\$20,176,135)	(\$20,781,234)
Total Estimated Net Effect on General Revenue Fund	(\$7,498,416)	(\$20,176,135)	(\$20,781,234)

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 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on <u>All</u> 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 **Department of Revenue (DOR)** state this legislation allows a subtraction for military retirement benefits, to the extent they are included in the taxpayer's federal adjusted gross income. This legislation will become effective January 1, 2005.

ADMINISTRATIVE IMPACT:

Officials of the Personal Tax Bureau state that the modification would be made on the MO- A and the additional line would be keyed as appropriate. They would request two (2) temporary tax season employees to handle the volume of returns filed with this subtraction, one (1) Tax Processing Tech I for every 3,000 pieces of correspondence received regarding the subtraction and one (1) Tax Processing Tech I for every 30,000 errors generated by this legislation.

Customer Assistance anticipates additional calls due to this legislation and will request one (1) Tax Collection Technician I for every 24,000 calls per year to the 751-3035 telephone number and one (1) Tax Processing Tech I for every 5,200 additional field office contacts.

This legislation will require modifications to the Missouri Individual Income Tax System (MINITS), the Speed-up System, the 2D Barcode and Electronic Filing systems to allow for an additional line on the MO-A. Information Technology Bureau officials estimate that four (4)

ASSUMPTION (continued)

programers would need two (2) months to program and test the modifications at a cost of \$46,170.

REMOVE MILITARY RETIREMENT BENEFITS FOR AGI

Based on information provided by the U.S. Department of Defense, Office of the Actuary, **Oversight** estimates the revenue impact of this proposal as a loss to General Revenue of \$19.9 million annually. There were approximately 33,644 military retirees in Missouri as of September 30, 2001. Of that number, 30,694 receive a payment for their pension. Pension payments for military retirees in Missouri totaled \$514,620,000 annually. The average annual pension was \$16,791 (\$514,620,000 divided by 30,517 retirees). Subtracting the \$6,000 that is already exempt from the average annual pension left a difference of \$10,791. Multiplying the \$10,791 by the number of Missouri retirees (30,694) equals \$331,218,954. Using a marginal income tax rate of 6% generates a loss of approximately \$19,873,137 million annually. Oversight assumes losses would increase about 3% per year.

Oversight estimates a loss to the General Revenue Fund of \$7,452,246 for FY 2005 due to the possibility of reduced withholding and estimated income tax payments for five months of calendar year 2005. **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 military retirement benefits in determining state income tax and their desire to adjust withholdings or estimated payments.

<u>FISCAL IMPACT - State Government</u>	FY 2005 (6 Mo.)	FY 2006	FY 2007
GENERAL REVENUE FUND			
<u>Loss</u> - Deduction of Military Retirement Pay	(\$7,452,246)	(\$20,096,890)	(\$20,699,611)
<u>Cost</u> - Department of Revenue (DOR)			
Personal Service (3 FTE)	\$0	(\$56,043)	(\$57,725)
Fringe Benefits	\$0	(\$23,202)	(\$23,898)
Expense and Equipment	\$0	\$0	\$0
Reprogramming Costs	<u>(\$46,170)</u>	<u>\$0</u>	<u>\$0</u>
Administrative Costs to DOR	(\$46,170)	(\$79,245)	(\$81,623)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$7,498,416)</u>	<u>(\$20,176,135)</u>	<u>(\$20,781,234)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2005 (10 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

This proposal would authorize the subtraction from a taxpayer's federal adjusted gross income of any amount of military pension benefits included when calculating their Missouri adjusted gross income. Under current law, annuities, pensions, retirement allowances, and other retirement benefits provided to any person for military service are subject to a limited state income tax deduction of up to \$6,000 of the benefits paid based on the income of the taxpayer.

The proposal has an effective date of January 1, 2005.

DESCRIPTION (continued)

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

SOURCES OF INFORMATION

Office of Administration - Division of Budget and Planning
Department of Revenue
Department of Public Safety - Missouri National Guard
Internal Revenue Service Statistics of Income
Department of Defense - Office of the Actuary



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Director
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