

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4936-01
Bill No.: HB 1717
Subject: Taxation and Revenue - Income: Retirement Income
Type: Original
Date: May 11, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	(\$175,124,856)	(\$157,947,334)	(\$173,730,047)
Total Estimated Net Effect on General Revenue Fund	(\$175,124,856)	(\$157,947,334)	(\$173,730,047)

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 social security benefits, to the extent they are included in the taxpayer's federal adjusted gross income.

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.

According to the Spring 2003 Federal Statistics of Income Bulletin, there were 219,837 federal returns filed in Missouri with social security benefits included in federal adjusted gross income (AGI). **Oversight** assumes based on the number of federal returns filed last year in Missouri with social security benefits included in the federal AGI, DOR would need six (6) temporary tax season employees.

REMOVE SOCIAL SECURITY BENEFITS FROM AGI

Officials of the **Office of Administration - Division of Budget and Planning** stated that the proposal would not affect their office. They did note the Spring 2003 Statistics of Income (SOI) reported that Social Security benefits in Missouri Adjusted Gross Income (AGI) for 2001 were \$1,756,526,000. Assuming a marginal tax rate of six percent, this would have resulted in a loss of about \$105.4 million for tax year 2001 (FY 2002).

Oversight notes that the 2003 SOI report was the forth year that Social Security benefits have been reported by state. They have grown by an average of 10.6% in Missouri. National Social Security benefits have been growing at about 18% annually since 1994. A 10% growth rate is used for this estimate. A 6% marginal tax rate is then used to determine the amount of individual income tax revenue lost to the state. The amount of revenue loss would be an estimated \$140,276,166 for Tax Year 2004 (FY 2005), \$154,303,800 for Tax Year 2005, \$169,734,180 for Tax Year 2006 and \$186,707,598 for Tax Year 2007.

Oversight estimates an additional loss to the General Revenue Fund of \$34,718,355 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 affected taxpayers would adjust payments and that those payments account for ninety percent (90%) of collections; however, it should be noted that this amount could be less depending on taxpayers' awareness of the deductibility of Social Security 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 Social Security Benefits	(\$174,994,521)	(\$157,775,636)	(\$173,553,199)
<u>Cost - Department of Revenue (DOR)</u>			
Personal Service (6.5 FTE)	(\$59,523)	(\$121,427)	(\$125,069)
Fringe Benefits	(\$24,642)	(\$50,271)	(\$51,779)
Expense and Equipment	\$0	\$0	\$0
Reprogramming Costs	<u>(\$46,170)</u>	<u>\$0</u>	<u>\$0</u>
Administrative Costs to DOR	(\$130,335)	(\$171,698)	(\$176,848)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$175,124,856)</u>	<u>(\$157,947,334)</u>	<u>(\$173,730,047)</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.

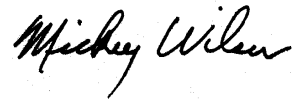
DESCRIPTION

This proposal would authorize the subtraction from a taxpayer's federal adjusted gross income of any amount of Social Security benefits included when calculating their Missouri 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. This proposal would affect Total State Revenue.

SOURCES OF INFORMATION

Office of Administration - Division of Budget and Planning
Department of Revenue
Internal Revenue Service Statistics of Income

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
May 11, 2004