COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0677-01
Bill No.: HB 222
Subject: Elderly; Retirement Systems and Benefits – General; Revenue Dept.; Taxation and Revenue – Income
Type: Original
Date: March 8, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	($14,326,000)	($72,547,000)	($73,922,000)
Total Estimated Net Effect on General Revenue Fund	**($14,326,000)**	**($72,547,000)**	**($73,922,000)**

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 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)** assume the agency will need 1 Tax Collection Tech for every 15,000 calls a year received on the income tax hotline regarding pension exemption and adjusted notices of refund due to lack of documentation. 1 Tax Collection Tech will be needed for every 24,000 calls a year to the delinquent line on billings on denied pension exemptions due to lack of documentation.

The MINITS system will need to be modified to handle this legislation. DOR estimates that it will require 1,384 hours of programming at a cost of $46,170.

Oversight assumes DOR can manage any necessary programming and additional workload created by this legislation 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, 2006.

ASSUMPTION (continued)

BAP assumes that according to data supplied by the Department of Revenue, $3.1 billion was reported in pension income in tax year 2003. Of this, $1.4 billion was deducted. The marginal income loss resulting from this proposal is $1.7 billion. BAP estimates that 70% of those reporting retirement benefits are over age 65. Applying this factor to the margin above leaves $1.2 billion. However it is unclear how many of the relevant returns would exceed the $6,000 benefit limit. For fiscal note purposes, BAP assumes that 75% of the $1.2 billion above could be exempted, or $900 million. Applying the 6% tax rate to this figure, the potential negative impact of this proposal is an estimated $54 million to both general and total state revenues.

Using an inflation rate of 2% per year, **Oversight** estimates the revenue loss for FY07 to be $57.31 million and in FY08 to be $58.45 million.

Oversight estimates a loss to the General Revenue Fund of $14.33 million for FY06 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 retirement benefits in determining state income tax and their desire to adjust withholdings or estimated payments.

According to the 2003 Tax Expenditure Report, $8.1 million in public pension exemptions are estimated for FY07. **Oversight** assumes that if 70% of these exemptions are for 65 year olds and over, then 30% 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 $2.43 million in FY07 and FY08.

Oversight assumes the revenue loss for the private pension exemptions for under 65 year old taxpayers will be $17.67 million for FY07 and $17.9 million for FY08. This is calculated by assuming 30% of the marginal revenue loss estimated by BAP 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	$2,430,000	$2,430,000
Loss - General Revenue			
Pension Exemptions (65 yrs and older)	($14,326,000)	($57,305,000)	($58,451,000)
Private Pension Exemption (under 65)	$0	($17,672,000)	($17,901,000)
Loss to GR	($14,326,000)	($74,977,000)	($76,352,000)
TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($14,326,000)**	**($72,547,000)**	**($73,922,000)**

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 bill 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 still be allowed the $6,000 benefit deduction subject to the income limitations.

The bill has an effective date of January 1, 2006.

DESCRIPTION (continued)

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

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