

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0278-01
Bill No.: HB 133
Subject: Elderly; Retirement Systems and Benefits - General; Revenue Dept.; Taxation and Revenue - General; Taxation and Revenue - Income
Type: Original
Date: February 5, 2007

Bill Summary: Would exempt annuities, pensions, and retirement allowances from state income tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(Approximately \$279,000,000)	(Approximately \$287,000,000)	(Approximately \$294,000,000)
Total Estimated Net Effect on General Revenue Fund	(Approximately \$279,000,000)	(Approximately \$287,000,000)	(Approximately \$294,000,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>Other</u> 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 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on FTE	0.0	0.0	0.0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Kansas City Police Retirement System**, the **Missouri County Employees Retirement System**, the **Public School Retirement System of Missouri**, the **Prosecutors and Circuit Attorneys' Retirement System**, and the **Public School Retirement System of the School District of Kansas City** assume this proposal would have no fiscal impact to their organizations.

Officials from the **Department of Revenue** (DOR) assume this proposal would have no fiscal impact to their organization since the proposal would expand the existing exemption for retirement income.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume the proposal would exempt income earned from annuities, pensions, and retirement allowances for individual income tax filers who are 65 or older. EPARC estimated that net general revenue collections would be reduced by \$279 million if the proposal was implemented.

Oversight will utilize the EPARC estimate for the initial reduction in annual tax collections. Oversight has analyzed cost of living increases for social security benefits; over the past five years benefits have increased an average 2.72 percent. Oversight assumes the retirement benefits exempted from taxation would have similar cost of living increases; therefore, Oversight will assume a 2.72% annual increase in lost revenues due to anticipated cost of living increases.

Oversight is not able to estimate the potential for revenue reductions as a result of additional taxpayers filing returns who would not have filed a tax return under existing conditions, and Oversight is not able to determine the potential for revenue reductions due to the impact of this proposal on the existing Circuit Breaker and Homestead Exemption provisions.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume the proposal would have no fiscal impact on their organization. BAP defers to DOR or UM EPARC for an estimate of the revenue loss to the state.

This proposal would reduce Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
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GENERAL REVENUE

Loss - Department of Revenue

Revenue reduction due to a deduction for annuities, pensions, and retirement allowances.	<u>(Approximately \$279,000,000)</u>	<u>(Approximately \$287,000,000)</u>	<u>(Approximately \$294,000,000)</u>
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ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(Approximately \$279,000,000)</u>	<u>(Approximately \$287,000,000)</u>	<u>(Approximately \$294,000,000)</u>
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<u>FISCAL IMPACT - Local Government</u>	<u>FY 2008</u> <u>(10 Mo.)</u>	<u>FY 2009</u>	<u>FY 2010</u>
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<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

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

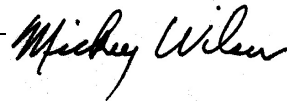
FISCAL DESCRIPTION

The proposal would exempt annuities, pensions, and retirement allowances from state income tax.

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 Administration
 Division of Budget and Planning
Department of Revenue
University of Missouri
 Economic Policy and Research Center
Kansas City Police Retirement System
Missouri County Employees Retirement System
Prosecutors and Circuit Attorneys' Retirement System
Public School Retirement System of Missouri
Public School Retirement System of the School District of Kansas City



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