

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0761-07  
Bill No.: SCS for HCS for HB 444, 217, 225, 239, 243, 297, 402 & 172  
Subject: Taxation and Revenue - Income  
Type: Original  
Date: April 25, 2007

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Bill Summary: Would exempt Social Security benefits from income taxation.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(\$24,120,215)	(\$43,129,524)	(\$63,133,245)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$24,120,215)</b>	<b>(\$43,129,524)</b>	<b>(\$63,133,245)</b>

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

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 7 pages.

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

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	3.0	3.0	3.0
<b>Total Estimated Net Effect on FTE</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>

☒ 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).

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

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## **FISCAL ANALYSIS**

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### ASSUMPTION

Officials from the **Department of Revenue** (DOR) assume this proposal would allow a deduction of Social Security benefits included in the Federal Adjusted Gross Income of a taxpayer. This deduction would require Taxation to add a line to the Form MO-A.

Personal Tax would require 2 Temporary Tax Employee for key-entry, 1 Tax Processing Tech I for every 19,000 returns to be verified by Quality Review, and 1 Tax Processing Tech I for every 2,400 pieces of correspondence. They will also require 2 Temporary Tax Employees for key-entry of 1040P & PTC forms, and 1 Tax Processing Tech I for every additional 5,000 verified returns plus correspondence on the 1040P/PTC forms.

Customer Services would require 1 Tax Collection Technician I for every 15,000 calls a year on the income tax hot line due to lack of documentation and 1 Tax Collection Technician I for every 24,000 calls a year to delinquency/collections due to lack of documentation. They will also need 1 Tax Processing Technician I for every additional 4,800 contacts in the field offices. DOR anticipates most customers will contact the department via phone, therefore, will only request 1 FTE for each of the larger field offices including Kansas City, St. Louis, and Springfield.

In summary, DOR submitted a cost estimate for eight FTE additional staff, and related equipment and expense with a total of \$337,796 for FY 2008, \$361,811 for FY 2009, and \$370,91 for FY 2010. The DOR estimate for a similar proposal in the previous session included only three new FTE. In response to a similar proposal in the previous session (HB 1941, LR 4411-03), DOR assumed the need for three additional FTE Tax Processing Tech I plus four tax season temporary employees.

**Oversight** will use the previous DOR assumption, and will further assume that DOR would be able to implement the proposal with existing IT staff. If multiple provisions are enacted requiring additional staffing or if unanticipated costs are incurred, DOR could request resources through the budget process.

ASSUMPTION (continued)

**Oversight** has, for fiscal note purposes only, changed the starting salary for the additional staff 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. In addition, Oversight has reduced certain equipment and expense items in accordance with Office of Administration budget guidelines. Oversight assumes that the relatively small number of additional staff can be located in existing office space.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) prepared an analysis for a proposal (HB 172, LR 771-01) which would permit individual income filers to deduct the amount of Social Security benefits included in federal adjusted gross income. This estimated fiscal impact of that proposal was \$120 million.

**Oversight** will utilize the EPARC estimate for the initial reduction in annual tax collections. This proposal would implement the deductibility of Social Security Benefits over six years, and Oversight has calculated the estimated revenue reduction based on the percentage of Social Security income subject to deduction. 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 will assume a 2.72% annual increase in lost revenues due to anticipated cost of living increases.

	Calendar Year	Fiscal Year	Revenue Reduction
20 percent deduction	2007	2008	\$24 million
35 percent deduction	2008	2009	\$43 million
50 percent deduction	2009	2010	\$63 million
65 percent deduction	2010	2011	\$85 million
80 percent deduction	2011	2012	\$107 million
100 percent deduction	2012	2013	\$137 million

ASSUMPTION (continued)

**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.

In response to similar proposals, officials from the **Office of the Secretary of State (SOS)** provided the following response:

Many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** stated that a previous version of the proposal would have no fiscal impact to their organization, and deferred to EPARC or DOR for an estimate of the revenue loss.

**This proposal would reduce Total State Revenue.**

<u>FISCAL IMPACT - State Government</u>	<u>FY 2008</u> <u>(10 Mo.)</u>	<u>FY 2009</u>	<u>FY 2010</u>
<b>GENERAL REVENUE</b>			
<u>Costs - Department of Revenue</u>			
Personal Service (3 FTE)	(\$53,460)	(\$66,077)	(\$68,059)
Fringe Benefits	(\$23,554)	(\$29,113)	(\$29,987)
Tax Season Temporaries	(\$26,650)	(\$32,780)	(\$33,599)
Expense and Equipment	(\$16,551)	(\$1,554)	(\$1,600)
<u>Total Costs - DOR</u>	<u>(\$120,215)</u>	<u>(\$129,524)</u>	<u>(\$133,245)</u>
<u>Revenue reduction - Department of Revenue</u>			
Deduction for social security benefits	(\$24,000,000)	(\$43,000,000)	(\$63,000,000)
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b><u>(\$24,120,215)</u></b>	<b><u>(\$43,129,524)</u></b>	<b><u>(\$63,133,245)</u></b>
<u>Estimated Net FTE Change for General Revenue Fund</u>	<u>3.0 FTE</u>	<u>3.0 FTE</u>	<u>3.0 FTE</u>
<u>FISCAL IMPACT - Local Government</u>	<u>FY 2008</u> <u>(10 Mo.)</u>	<u>FY 2009</u>	<u>FY 2010</u>
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

### FISCAL DESCRIPTION

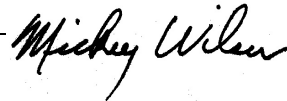
The proposal would exempt Social Security benefits from state income tax.

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

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Mickey Wilson, CPA  
Director  
April 25, 2007