

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1228-01  
Bill No.: HB 297  
Subject: Elderly; Revenue Dept.; Taxation and Revenue - Income  
Type: Original  
Date: January 29, 2007

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Bill Summary: Would provide a deduction for federal Social Security benefits from Missouri taxable income for certain elderly citizens.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
General Revenue	(Approximately \$4,120,215)	(Approximately \$4,238,524)	(Approximately \$4,354,245)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(Approximately \$4,120,215)</b>	<b>(Approximately \$4,238,524)</b>	<b>(Approximately \$4,354,245)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
<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 6 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 add a deduction for the amount of any social security benefits included in federal adjusted gross income for married taxpayers 65 or older having an annual income of less than \$40,000, or single taxpayers 65 or older having an annual income of less than \$20,000. DOR estimated the fiscal impact to their organization as follows:

This proposal would add a line to the MO-A and could increase the number of eligible filers. Those who claim this deduction would need to include a copy of their federal return for verification.

Personal Tax would require 2 Temporary Tax Employees for key-entry, 1 Tax Processing Technician I for every 19,000 additional returns verified, and 1 Tax Processing Technician I for every additional 2,400 pieces of correspondence. Personal Tax will also require 2 Temporary Tax Employees for key-entry of the PTC and MO-1040P plus 1 Tax Processing Technician I for every 10,500 additional returns verified and correspondence received.

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, 1 Tax Collection Technician I for every 24,000 calls a year 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, and will only request 1 FTE for each of the larger field offices including Kansas City, St. Louis, and Springfield.

DOR submitted a cost estimate for the 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. 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) assume the proposal would allow some individuals to deduct Social Security income benefits included in federal gross income from their Missouri gross income. Taxpayers who are married and 65 years of age or above and with annual income less than \$40,000 and taxpayers who are single and 65 years of age and above with annual income of \$20,000 or less would be able to deduct 100 percent of the social security benefits included in their federal adjusted gross income. EPARC estimated that net general revenue collections would be reduced by \$4 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. Therefore, Oversight will assume a 2.72% annual increase in lost revenues due to anticipated Social Security 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** did not respond to our request for information.

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

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
<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>Loss - Department of Revenue</u>			
Income tax deduction for social security benefits for those 65 years and older with incomes below \$40,000 (combined) or \$20,000 (single)	(Approximately \$4,000,000)	(Approximately \$4,109,000)	(Approximately \$4,221,000)
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b><u>(Approximately \$4,120,215)</u></b>	<b><u>(Approximately \$4,238,524)</u></b>	<b><u>(Approximately \$4,354,245)</u></b>
Estimated Net FTE Change for General Revenue Fund	3.0 FTE	3.0 FTE	3.0 FTE
<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT - Small Business

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

### FISCAL DESCRIPTION

This proposal would provide a deduction for federal Social Security benefits from Missouri taxable income for certain elderly citizens.

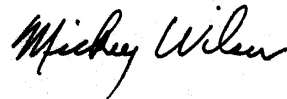
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

### SOURCES OF INFORMATION

Department of Revenue  
University of Missouri  
Economic Policy and Research Center

### NOT RESPONDING

**Office of Administration**  
**Division of Budget and Planning**



Mickey Wilson, CPA  
Director  
January 29, 2007