

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1482-03
Bill No.: HCS for HB 636, 308 & 173
Subject: Revenue Department; Taxation and Revenue - Income; Veterans
Type: Original
Date: February 9, 2007

Bill Summary: Would exempt military retirement benefits from state income tax.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|-------------------------------------|-------------------------------------|-------------------------------------|
| FUND AFFECTED | FY 2008 | FY 2009 | FY 2010 |
| General Revenue | (Less than \$26,331,278) | (Less than \$27,132,248) | (Less than \$27,933,216) |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | (Less than \$26,331,278) | (Less than \$27,132,248) | (Less than \$27,933,216) |

| 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 6 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 |
| General Revenue | 3.0 | 3.0 | 3.0 |
| | | | |
| Total Estimated Net Effect on FTE | 3.0 | 3.0 | 3.0 |

- 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 **Department of Revenue** (DOR) assume this proposal would allow a tax credit beginning on or after January 1, 2007 for military retirement benefits included in the Federal Adjusted Gross Income and not otherwise deducted. The amount of the tax credit would be equal to the amount of state income tax otherwise due for benefits received in the tax year in which the credit is claimed. The credit is not refundable, nor could it be transferred, sold, or assigned. DOR would promulgate the rules.

This proposal would create a new tax credit to be administered by DOR. Personal Tax would require 1 Tax Processing Technician I per 4,000 claims, for verification purposes.

Information Technology ITSD/DOR assumes the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. ITSD/DOR estimates that this legislation could be implemented utilizing 5 existing CIT III for 2 months at a cost of \$41,860.

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) assumed that a similar proposal (HB 173 LR 772-01) would permit individual income filers to exclude military retirement benefits from taxable income. EPARC was not able to provide an estimate of the impact of this proposal on the General Revenue Fund.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State** (SOS) stated that 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 Missouri Veterans Commission (VETS) assume this proposal would have no fiscal impact on their organization. VETS officials also stated that as of September 30, 2005, there were 32,348 military retirement beneficiaries in Missouri who receive \$48,698,000 in monthly benefits.

Oversight estimates that the maximum reduction in income tax revenue to the General Revenue Fund would be (\$48,698,000 per month x 12 months x 6% Missouri maximum personal income tax rate) \$35,062,560. Using an assumed effective tax rate of 4.5% provides an estimated tax revenue reduction of \$26,296,920. Oversight will round this estimate to \$26,300,000 and assume a 3% annual increase in lost revenues due to anticipated cost of living increases. Oversight assumes the actual tax revenue reduction would be less than that estimate since some taxpayers would currently be eligible for the \$6,000 retirement income exemption, and Oversight is not able to determine the potential for additional revenue reductions due to the impact of this proposal on the existing Circuit Breaker and Homestead Exemption provisions.

This proposal would reduce Total State Revenue.

| <u>FISCAL IMPACT - State Government</u> | FY 2008 (10 Mo.) | FY 2009 | FY 2010 |
|---|--|--|--|
| GENERAL REVENUE | | | |
| <u>Costs - Department of Revenue</u> | | | |
| Personal Service (3 FTE) | (\$17,820) | (\$22,026) | (\$22,686) |
| Fringe Benefits | (\$7,851) | (\$9,704) | (\$9,996) |
| Expense and Equipment | (\$5,607) | (\$518) | (\$534) |
| <u>Total Costs - DOR</u> | <u>(\$31,278)</u> | <u>(\$32,248)</u> | <u>(\$33,216)</u> |
| <u>Loss - Income Tax Revenue</u> | | | |
| Exclude military retirement benefits from state income tax. | <u>(Less than \$26,300,000)</u> | <u>(Less than \$27,100,000)</u> | <u>(Less than \$27,900,000)</u> |
| ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND | <u>(Less than \$26,331,278)</u> | <u>(Less than \$27,132,248)</u> | <u>(Less than \$27,933,216)</u> |
| 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 |
| | <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 proposed legislation would provide a tax credit for state income tax otherwise due on military retirement benefits.

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

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SOURCES OF INFORMATION

Office of the Secretary of State
Department of Revenue
Missouri Veterans Commission

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive style with a large initial "M".

Mickey Wilson, CPA
Director
February 9, 2007