

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1894-01  
Bill No.: HB 675  
Subject: Military Affairs; Revenue Dept.; Taxation and Revenue - Income  
Type: Original  
Date: February 12, 2007

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Bill Summary: Would provide a state income tax credit for recipients of military retirement benefits.

**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 \$572,761,908)	(Approximately \$572,762,968)	(Approximately \$572,763,936)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(Approximately \$572,761,908)</b>	<b>(Approximately \$572,762,968)</b>	<b>(Approximately \$572,763,936)</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	1.0	1.0	1.0
<b>Total Estimated Net Effect on FTE</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</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>

## **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 benefits received in the tax year in which the credit is claimed, and the credit is not refundable, nor may it be transferred, sold, or assigned.

DOR assumes Personal Tax would require 1 Tax Processing Technician I per 4,000 credits claimed. Information Technology (ITSD/DOR) assumes the IT portion of this request could be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. Office of Administration Information Technology (ITSD DOR) assumes this legislation could be implemented utilizing 5 existing CIT III for 2 months at a cost of \$41,860.

In summary, DOR submitted a cost estimate to implement this proposal including 1.0 additional FTE and related equipment and expense of \$37,623 for FY 2008, \$39,742 for FY 2009, and \$40,935 for FY 2010.

**Oversight** has, for fiscal note purposes only, changed the starting salary the new position 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. Oversight has also adjusted the DOR estimate of equipment and expenditure costs in accordance with OA budget guidelines. Oversight assumes the IT requirement for the proposal could be implemented using existing staff. Finally, Oversight assumes the additional staff could be located in existing office space.

Officials from the **University of Missouri Economic Policy and Research Center** stated they could not provide an estimate of the revenue reduction for a similar proposal.

ASSUMPTION (continued)

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

**Oversight** does not have information regarding the amounts of other income, deductions, exemptions, and other tax credits for Missouri taxpayers who receive military retirement benefits. Oversight has estimated the impact of this proposal as follows:

1. Total Missouri veterans retirement benefits (\$48,698,000 per month x 12 months) = \$584,376,000.
2. Current veterans benefits excluded from Missouri tax (32,348 recipients x \$6,000) = \$194,088,000.
3. Tax on excluded benefits at 6% maximum tax rate (\$194,088,000 x 6%) = \$11,645,280 .
4. Therefore, the maximum tax credit available assuming military retirement benefit recipients have no other income, deductions, exemptions, or other credits would be (\$584,376,000 less \$11,645,280) = \$572,730,720.

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 estimate has not been adjusted for potential cost of living increases in military retirement benefits, nor does it account for demographic changes such as growth and migration of military retirees.

Officials from the **Office of Administration, Division of Budget and Planning** did not respond to our request for fiscal 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 (1.0 FTE)	(\$17,820)	(\$22,026)	(\$22,686)
Fringe Benefits	(\$7,851)	(\$9,704)	(\$9,996)
Expense and Equipment	(\$5,517)	(\$518)	(\$534)
<u>Total Costs - DOR</u>	(\$31,188)	(\$32,248)	(\$33,216)
<u>Loss - Income Tax Revenue</u>			
Exclude military retirement benefits from state income tax.	<u>(Approximately \$572,730,720)</u>	<u>(Approximately \$572,730,720)</u>	<u>(Approximately \$572,730,720)</u>
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b><u>(Approximately \$572,761,908)</u></b>	<b><u>(Approximately \$572,762,968)</u></b>	<b><u>(Approximately \$572,763,936)</u></b>
 Estimated Net FTE Change for General Revenue Fund	 1.0 FTE	 1.0 FTE	 1.0 FTE
 <u>FISCAL IMPACT - Local Government</u>	 FY 2008 (10 Mo.)	 FY 2009	 FY 2010
	<u><b>\$0</b></u>	<u><b>\$0</b></u>	<u><b>\$0</b></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 create an credit against state income tax for recipients of military retirement benefits.

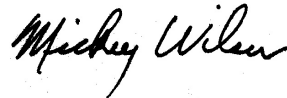
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue  
Department of Public safety  
Missouri Veterans Commission

NOT RESPONDING

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

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA  
Director  
February 12, 2007