

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4601-01
Bill No.: HB 1882
Subject: Military Affairs; Revenue Dept.; Tax Credits; Taxation and Revenue - Income
Type: Original
Date: February 25, 2008

Bill Summary: Would authorize an individual income tax credit for military retirement benefits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	(More than \$17,532,012)	(More than \$17,533,228)	(More than \$17,534,225)
Total Estimated Net Effect on General Revenue Fund	(More than \$17,532,012)	(More than \$17,533,228)	(More than \$17,534,225)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	1	1	1
Total Estimated Net Effect on FTE	1	1	1

☐ 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 2009	FY 2010	FY 2011
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume there would be no added cost to BAP as a result of this proposal. BAP officials provided the following cost estimate for the proposal.

According to the FY 2006 Department of Defense Statistical Report on the Military Retirement System, there were 32,987 individuals receiving military pensions in Missouri, totaling \$51,700,000 monthly, or \$620,400,000 annually. This proposal would create an income tax credit equivalent to military retirement benefits received, to the extent the benefits are included in FAGI. The credit would not be refundable or transferable.

Under existing law, pension income of \$6,000 per taxpayer is already exempt from tax. That exemption would be $(32,987 \times \$6,000 \times 4.5\% \text{ average rate})$ \$8,900,000. Therefore, this proposal could reduce general and total state revenues by as much as $(\$620,400,000 - \$8,900,000)$ \$611,500,000.

However, because the tax credit is non-refundable, the reduction to general and total state revenues cannot exceed current tax liability. Assuming a 4.5% average marginal tax rate, total liability on military retirement benefits would be $(\$620,400,000 \times 4.5\%)$ \$27,900,000. These taxpayers may also be participants in the Circuit Breaker program, or may already be impacted by HB444 (2007). BAP cannot estimate these impacts.

In response to a similar proposal (HB 1788 LR 4249-02), BAP assumed that \$1,500,000 in military retirement income would already be exempted by HB 444 (2007).

Based on the BAP estimates, **Oversight** has calculated an estimated fiscal impact as follows. The estimate excludes the potential impact of current programs other than the current \$6,000 pension exemption and the BAP estimate of HB 444.

*	Estimated tax on military retirement benefits	\$27,900,000	\$27,900,000
*	Income tax exemption from current \$6,000 pension exemption		(\$8,900,000)
*	HB 444 tax exemption		<u>(\$1,500,000)</u>
	Net		<u>\$17,500,000</u>

ASSUMPTION (continued)

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. 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. In addition, 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.

Because the proposal would create a tax credit for taxpayers who receive military retirement benefits, which could be used to offset tax on other income, Oversight will indicate an unknown fiscal impact greater than \$17,500,000.

Officials from the **Department of Public Safety, Missouri Veterans Commission** assume this proposal would have no fiscal impact on their organization.

Officials from the **Department of Revenue** (DOR) assume this proposal would create a tax credit beginning on January 1, 2008 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, would not be refundable, and could not be transferred, sold, or assigned. DOR would promulgate the rules. DOR also assumed that Personal Tax would require one additional FTE Tax Processing Technician for every 4,000 claims.

DOR provided a cost estimate including one FTE Tax Processing Technician I with related equipment and expenditures totaling \$36,762 for FY 2009, \$38,723 for FY 2010, and \$39,884 for FY 2011.

DOR provided this estimate of the IT cost to implement the proposal. The Office of Administration, Information Technology Services Division (ITSD/DOR) estimates the IT portion of this request could be implemented utilizing two existing CIT III for one month for modifications to MINITS at a total estimated cost of \$8,372. ITSD/DOR assumes this proposal could be implemented with existing resources; however, if priorities shift, additional FTE/overtime would be needed.

ASSUMPTION (continued)

Oversight has, for fiscal note purposes only, changed the starting salary for the additional 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 equipment and expenditures estimate in accordance with OA budget guidelines, and Oversight assumes that one additional FTE could be accommodated in existing office space.

Officials from the **Office of the Secretary of State** (SOS) provided this 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 the 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.

Although they did not respond to our request for fiscal information, officials from the **University of Missouri, Economic and Policy Analysis Research Center** stated they could not provide an estimate for a similar proposal (HB 173 LR 772-01) in the previous session.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
<u>Cost - Department of Revenue</u>			
Personal Service (1 FTE)	(\$18,350)	(\$22,681)	(\$23,361)
Fringe Benefits	(\$8,114)	(\$10,029)	(\$10,330)
Expense and Equipment	(\$5,548)	(\$518)	(\$534)
Total	(\$32,012)	(\$33,228)	(\$34,225)
Revenue reduction - pension exemption	(More than \$17,500,000)	(More than \$17,500,000)	(More than \$17,500,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(More than \$17,532,012)	(More than \$17,533,228)	(More than \$17,534,225)
Estimated net FTE effect on General Revenue Fund	1	1	1
<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
	<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

This proposal would authorize an individual income tax credit for military retirement benefits.

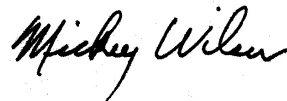
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration
Division of Budget and Planning
Department of Public Safety
Missouri Veterans commission
Department of Revenue

NOT RESPONDING

University of Missouri
Economic and Policy Analysis Research Center



Mickey Wilson, CPA
Director
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