

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0269-01
Bill No.: HB 82
Subject: Military Affairs; Tax Credits; Retirement Systems and Benefits - General
Type: Original
Date: February 9, 2009

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 2010	FY 2011	FY 2012
General Revenue	(\$19,354,041)	(\$16,292,983)	(\$13,231,355)
Total Estimated Net Effect on General Revenue Fund	(\$19,354,041)	(\$16,292,983)	(\$13,231,355)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
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 2010	FY 2011	FY 2012
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

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

Officials from the **University of Missouri, Economic and Policy Analysis Research Center (EPARC)** assume this proposal would provide an individual taxpayer with an income tax credit for military retirement benefits received, equal to the amount received in the taxable year for which the credit is claimed.

EPARC officials stated that their income tax database does not identify whether filers receive military retirement benefits. Accordingly, EPARC was not able to quantify the impact that this bill could have on Missouri's net general revenue.

Officials from the **Department of Revenue (DOR)** assume this proposal would create a tax credit program for military retirement benefits included in Federal Adjusted Gross Income for tax years beginning on or after January 1, 2009.

- * 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;
- * the credit would not be refundable; and
- * the credit could may be transferred, sold, or assigned.

DOR would promulgate the rules for the program.

Personal Tax would require one FTE Revenue Processing Technician I (Step 10, Range L) for every 4,000 credits received.

DOR provided an estimate of the cost to implement the proposal including one additional employee and the related equipment and expense costs totaling \$\$38,614 for FY 2010, \$41,086 for FY 2011, and \$42,317 for FY 2012.

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.

DOR also provided an estimate of the IT cost to implement the proposal.

Officials from the **Office of Administration, Information Technology Services Division** (ITSD/DOR) estimate that the IT portion of this request could be implemented using two existing CIT III for 1 month for modifications to the MINITS system at a total cost of \$8,882. ITSD/DOR assumes the proposal could be implemented with existing resources; however, if priorities shift, additional FTE or overtime would be needed.

Officials from the **Office of the Secretary of State** (SOS) provided this response to a similar proposal.

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.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this proposal would be no added cost to their organization as a result of this proposal.

BAP officials stated that this proposal would create an income tax credit equivalent to military retirement benefits received, to the extent the benefits are included in Federal Adjusted Gross Income. The credit would not be refundable or transferable.

ASSUMPTION (continued)

According to the FY2007 Department of Defense Statistical Report on the Military Retirement System, during Federal Fiscal Year 07 there were 33,656 individuals receiving military pensions in Missouri, totaling \$54.7 million monthly, or \$656.7 million annually. Under existing law, \$6000 per taxpayer income is already exempt from income tax. Thus, the total taxable military pension income would be $(\$656,700,000 - (33,656 * \$6,000)) = \$454,800,000$.

Since the tax credit is non-refundable, the reduction to general and total state revenues would not exceed taxpayers' current tax liability. Assuming a 4.5% average marginal tax rate, total liability would be $(\$454,800,000 * 4.5%) = \20.5 million. The tax credit could also offset taxable income other than military retirement benefits. Therefore, this proposal could reduce general and total state revenues between \$20.5 million and \$656.7 million.

NOTE: The upper end of the above range is improbable given that the total tax liability of is unlikely to reach \$656.7 million. Assuming an average of \$1,500 per Missouri taxpayer, the total tax liability of taxpayers receiving military benefits would be in the neighborhood of \$50.5 million.

In response to a similar proposal in the previous session (HB 1788 LR 4249-02), BAP assumed that \$1,500,000 in military retirement income would already be exempted by HB 444 (2007). BAP was not able to provide an updated estimate of the impact on Missouri income taxes on military retirement benefits; however BAP officials assumed that the amount would be greater than \$1.5 million since the HB 444 was implemented in phases.

Oversight assumes that the applicable Missouri income tax reduction for this proposal could be estimated as follows.

The estimated tax on gross military retirement income would be $(\$656,700,000 * 4.5%) = \$29,551,500$. The estimated tax reduction due to the current \$6,000 exemption on retirement income would be $(\$6,000 * 33,656 * 4.5%) = \$9,087,100$. The net amount of tax after the application of the \$6,000 exemption would be $(\$29,551,500 - \$9,087,100) = \$20,464,400$.

The estimated impact of HB 444 (2007) would increase each year. Oversight has calculated an average military retirement benefit of $(\$656,700,000/33,656) = \$19,513$. Oversight notes that HB 444 only provides a tax reduction when the HB 444 exclusion exceed the \$6,000 exemption; therefore, the HB exclusion increases each year.

ASSUMPTION (continued)

- * For FY 2010, the HB 444 exclusion would be $(50\% \times (\$19,513 - \$6,000)) = \$757$ and the tax at 4.5% would be $(\$757 \times 4.5\%) = \34 . The total HB 444 tax reduction would be $(\$34 \times 33,656) = \$1,144,304$. The remaining tax credit impact resulting from the implementation of this proposal would be $(\$20,464,400 - \$1,144,304) = \$19,320,096$.
- * For FY 2011, the HB 444 exclusion would be $(65\% \times (\$19,513 - \$6,000)) = \$2,783$ and the tax at 4.5% would be $(\$2,783 \times 4.5\%) = \125 . The total HB 444 tax reduction would be $(\$125 \times 33,656) = \$4,207,000$. The remaining tax credit impact resulting from the implementation of this proposal would be $(\$20,464,400 - \$4,207,000) = \$16,257,400$.
- * For FY 2012, the HB 444 exclusion would be $(80\% \times (\$19,513 - \$6,000)) = \$10,810$ and the tax at 4.5% would be $(\$4,810 \times 4.5\%) = \216 . The total HB 444 tax reduction would be $(\$216 \times 33,656) = \$7,269,696$. The remaining tax credit impact resulting from the implementation of this proposal would be $(\$20,464,400 - \$7,269,696) = \$13,194,704$.

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.

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE FUND			
<u>Cost - Department of Revenue</u>			
Personal Service (1 FTE)	(\$18,900)	(\$23,360)	(\$24,061)
Fringe Benefits	(\$9,191)	(\$11,360)	(\$11,701)
Expense and Equipment	<u>(\$5,854)</u>	<u>(\$863)</u>	<u>(\$889)</u>
Total	<u>(\$33,945)</u>	<u>(\$35,583)</u>	<u>(\$36,651)</u>
<u>Revenue reduction - pension exemption</u>	<u>(\$19,320,096)</u>	<u>(\$16,257,400)</u>	<u>(\$13,194,704)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$19,354,041)</u>	<u>(\$16,292,983)</u>	<u>(\$13,231,355)</u>
Estimated net FTE effect on General Revenue Fund	1	1	1
<u>FISCAL IMPACT - Local Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
	<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
University of Missouri
 Economic and Policy Analysis Research Center



Mickey Wilson, CPA
Director
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