

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0903H.011  
 Bill No.: HB 356  
 Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Department of Revenue; Retirement Systems and Benefits - General  
 Type: Original  
 Date: February 14, 2023

Bill Summary: This proposal modifies provisions relating to income tax deductions for private pensions.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue Fund	\$0	(Unknown)	(Unknown)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

\*Oversight assumes the revenue loss from the proposed income tax deduction could reach the \$250,000 threshold

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
<b>Total Estimated Net Effect on <u>Other State Funds</u></b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
<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>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### Section 143.124 Private Pension Income Tax Deduction

Officials from the **Department of Revenue (DOR)** note currently some retirement benefits are subtracted from a taxpayer's adjusted gross income for determining taxable income. State, federal and local government pensions are public pensions and when calculating taxable income, based on certain income limits part of the taxpayer's public pensions are not taxable. Additionally, some social security benefits are not considered taxable when determining taxable income. Additionally, the first \$6,000 of private pensions are allowed to be subtracted when determining taxable income, if a filer meets certain income limits.

DOR notes currently taxpayers with income up to \$25,000, married filing combined taxpayers with income up to \$32,000, or married filing separate taxpayers with income up to \$16,000 can claim the maximum \$6,000 subtraction for private retirement payments. This proposal would increase the subtraction from \$6,000 to \$12,000. This proposal would also increase the income limit of the single and married filing separate taxpayers by \$4,000 while increasing the limit of the married filing combined filers by \$8,000. These changes would begin January 1, 2024 but would not have an impact until the tax returns are filed starting January 1, 2025.

Using their Individual Income Tax Model, DOR notes that in tax year 2020, the most recent complete year available, there were 229,569 individuals that claimed the current up to \$6,000 deduction.

DOR is unable to determine the amount of additional pension income that may be subtracted under this proposal. However, based on current usage, DOR estimates that this proposal could reduce general revenue by an amount that may exceed \$100,000 annually beginning FY25.

DOR notes this will require the department to modify the MO-A form, website and individual income tax computer system. These changes are estimate at \$7,193.

**Oversight** assumes the Department of Revenue is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the form and website costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would increase the income allowed to claim the maximum subtraction for private pension/retirement payments as well as increase the maximum subtraction amount. These changes would begin for tax year 2024. B&P notes that the tax year subtraction would not be

taken until a taxpayer files their annual return the following year (i.e. April 2025 for tax year 2024).

Currently taxpayers with income up to \$25,000, married filing combined taxpayers with income up to \$32,000, or married filing separate taxpayers with income up to \$16,000 can claim the maximum \$6,000 subtraction for private retirement payments. B&P notes that in tax year 2020, the most recent complete year available, there were 229,569 individuals that claimed the current up to \$6,000 deduction.

This proposal would increase the income allowed by \$4,000 for each filing status. In addition, the maximum subtraction amount would now be \$12,000 per taxpayers. B&P is unable to determine the amount of additional pension income that may be subtracted under this proposal. However, based on current usage, B&P estimates that this proposal could reduce TSR and GR by an amount that may exceed \$100,000 annually beginning FY25.

**Oversight** notes both DOR and B&P’s estimates include data from DOR and B&P’s internal Income Tax Model.

**Oversight** notes that it does not currently have the resources and/or access to state tax data to produce a thorough independent revenue estimate and is unable to verify the revenue estimates provided by B&P and DOR. Therefore, for the purpose of this fiscal note, Oversight will note DOR’s and B&P’s estimated impact for this proposal.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
<b>GENERAL REVENUE FUND</b>			
Revenue Reduction - §143.124 – Income Tax Deduction for Private Pension Benefits – p. 3-4	\$0	(Unknown)	(Unknown)
<b>ESTIMATED NET IMPACT ON GENERAL REVENUE FUND</b>	<b>\$0</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
	\$0	\$0	\$0

FISCAL IMPACT – Small Business

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

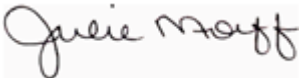
FISCAL DESCRIPTION

The proposed legislation modifies provisions relating to income tax deductions for private pensions.


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  
Office of Administration - Budget and Planning



Julie Morff  
Director  
February 14, 2023



Ross Strobe  
Assistant Director  
February 14, 2023