COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5498H.01P
Bill No.: Perfected HB 2657
Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Department of Revenue; Retirement Systems and Benefits - General
Type: Original
Date: April 11, 2024

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue*	$0	($110,611,154)	($108,257,725)
Total Estimated Net Effect on General Revenue	**$0**	**($110,611,154)**	**($108,257,725)**

* Oversight assumes a top income tax rate of 4.8% in tax year 2024 (FY 2025) and future income tax rate reductions from SB 3 (2022) will trigger consecutively (4.7% in FY 2026, 4.6% in FY 2027, and 4.5% in FY 2028+).

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ 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.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Section 143.124 Private Pension Income Tax Deduction

Officials from the **Department of Revenue (DOR)** note currently, some taxpayers who receive a private pension are allowed to subtract a portion of the pension from their Missouri adjusted gross income when determining taxable income. Those eligible for the subtraction must have income under $25,000 for a single, head of household or qualified widow(er), under $32,000 for married filing combined filers and under $16,000 for those married but filing separately. The subtraction allows for the first $6,000 of the pension for individual filers and $12,000 for married filing combined filers.

This proposal will raise the $6,000 to $12,000 for all filers. Additionally, this proposal raises the income limits for individual filers from $25,000 to $50,000, for married filing combined filers from $32,000 to $64,000 and for those married filing separate filers from $16,000 to $32,600. These changes are expected to lower these filers MAGI.

In order to determine the fiscal impact, the Department used its internal Income Tax Model that contains confidential taxpayer data from tax year 2021 (the most complete year available). DOR notes that currently taxpayers report $123,086,008,997 in taxable private pension income. Accounting for the changes outlined in the proposal, this could result in a another $2,353,428,811 in private pension income being eligible for the subtraction.

Note that subtractions do not reduce revenues on a dollar-for-dollar basis, but rather in proportion to the top tax rate applied. SB 3(2022) is allowing the individual income tax rate to decrease over a period of several years. Therefore, DOR will show the impact of this proposal with each expected rate drop.

Table 1: Estimated Revenue Loss by Fiscal Year

Tax Rate	Tax Year (Fiscal Year)			
	2025 (FY26)	2026 (FY27)	2027 (FY28)	2028 (FY29)
4.8%	($112,964,583)	($112,964,583)	($112,964,583)	($112,964,583)
4.7%	($110,611,154)	($110,611,154)	($110,611,154)	($110,611,154)
4.6%		($108,257,725)	($108,257,725)	($108,257,725)
4.5%			($105,904,296)	($105,904,296)

This proposal states that these changes will begin January 1, 2025, and therefore will not impact state revenue until the first tax returns are filed in January 2026 (FY 2026).

This proposal will require DOR to modify the department's MO-A and MO-1040 forms ($7,138), the department's website and individual income tax computer programming system ($1,785). These items are estimated to cost $8,923.

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 administrative 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 currently taxpayers may subtract $6,000 of their individual retirement income, if their Missouri Adjusted Gross Income (MAGI) is less than $25,000 for taxpayers filing single or head of household and $32,000 for married filing combined taxpayers. B&P notes that these private pensions include IRAs, 401(k) plans, private pensions, annuities, and self-employed (Keogh) plans.

This proposal would allow taxpayers to subtract $12,000 of their retirement income, if their MAGI is less than $50,000 for individuals and $64,000 for married filing combined taxpayers, beginning tax year 2025.

Based on tax year 2021 data, the most recent complete year available, Missouri taxpayers reported $123,086,008,997 in taxable private pension income. However, as noted above taxpayers with MAGI below the current thresholds are already allowed a deduction. Therefore, B&P estimates that this proposal could exempt $2,353,428,811 in private pension income.

However, subtractions do not reduce revenues on a dollar-for-dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from SB 3 (2022). Consequently, B&P estimates that exempting individual retirement arrangement payments could reduce TSR and GR by $112,964,583 (top tax rate 4.8%) or by $110,611,154 (top tax rate 4.7%) in FY26. Once SB 3 (2022) has fully implemented, this provision could reduce TSR and GR by $105,904,296 annually.

Table 1: Estimated Revenue Loss by Fiscal Year

Tax Rate	Tax Year (Fiscal Year)			
	2025 (FY26)	2026 (FY27)	2027 (FY28)	2028 (FY29)
4.8%	($112,964,583)	($112,964,583)	($112,964,583)	($112,964,583)
4.7%	($110,611,154)	($110,611,154)	($110,611,154)	($110,611,154)
4.6%		($108,257,725)	($108,257,725)	($108,257,725)
4.5%			($105,904,296)	($105,904,296)

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 utilize B&P's estimated impact for this proposal.

Oversight notes for the purpose of the fiscal note, Oversight assumes a top income tax rate of 4.8% in tax year 2024 (FY 2025) and future income tax rate reductions from SB 3 (2022) will trigger consecutively (4.7% in FY 2026, 4.6% in FY 2027, and 4.5% in FY 2028+).

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE FUND			
Revenue Reduction - §143.124 - Private Pension Income Tax Subtraction	$0	($110,611,154)	($108,257,725)
ESTIMATED NET IMPACT ON GENERAL REVENUE FUND	**$0**	**($110,611,154)**	**($108,257,725)**

FISCAL IMPACT – Local Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
	$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

This bill increases an individual's income tax adjustments related to private pensions in the following manner:

(1) Single, Head of Household -- increases from $25,000 to $50,000;
(2) Married Filing Combined -- increases from $32,000 to $64,000; and
(3) Married Filing Separate -- increases from $16,000 to $32,600

This bill increases the maximum amount to be subtracted from a taxpayer's adjusted gross income for tax years beginning on or after January 1, 2025, to the first $12,000 of any retirement allowance received from any privately funded sources. The previous maximum was $6,000.

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

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April 11, 2024

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April 11, 2024