COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1018H.01I
Bill No.: HB 426
Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Department of Revenue; Retirement Systems and Benefits - General
Type: Original
Date: January 30, 2025

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue*	$0	($348,199,100)	($340,629,554)
Total Estimated Net Effect on General Revenue	**$0**	**($348,199,100)**	**($340,629,554)**

*Revenue reduction from private pension income being eligible for the subtraction from MAGI.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
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 2026	FY 2027	FY 2028
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
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 2026	FY 2027	FY 2028
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Section 143.124 - Private Pension Income Tax Subtraction

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 starting January 1, 2026, will allow a taxpayer to subtract from their MAGI any retirement allowance from a privately funded source regardless of filing status or amount of income.

In order to determine the fiscal impact, the Department used its internal Income Tax Model that contains confidential taxpayer data from tax year 2022 (the most complete year available). DOR notes that currently taxpayers report $8,642,741,963 in taxable private pension income. Accounting for the changes outlined in the proposal, this could result in another $7,569,545,646 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.

Estimated Revenue Loss by Fiscal Year

Tax Rate	Tax Year (Fiscal Year)			
	2026 (FY27)	2027 (FY28)	2028 (FY29)	2029 (FY30)
4.7%	($355,768,645)	($355,768,645)	($355,768,645)	($355,768,645)
4.6%		($348,199,100)	($348,199,100)	($348,199,100)
4.5%			($340,629,554)	($340,629,554)

This proposal states that these changes will begin January 1, 2026, and therefore will not impact state revenue until the first tax returns are filed in January 2027 (FY 2027).

This proposal will require DOR to modify the department’s MO-A and MO-1040 forms ($4,400), the website and individual income tax computer programming system ($1,832). These items are estimated to cost $6,232.

Oversight notes the DOR requests one-time cost for website income-tax changes and updates to comply with the proposed language; however, Oversight notes that DOR receives appropriation for routine website updates and will not show those costs in the fiscal note.

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 all private pension income beginning tax year 2026.

Based on tax year 2022 data, the most recent complete year available, Missouri taxpayers reported $8,642,741,963 in taxable private pension income. However, as noted above taxpayers with MAGI below the current thresholds are already allowed a deduction. Under current law, $1,703,196,317 of the taxable private pension income is already exempt from Missouri income tax. B&P estimates that this proposal would exempt the remaining $7,569,545,646 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 $355,768,645 (top tax rate 4.7%) in FY27. Once SB 3 (2022) has fully implemented, this provision could reduce TSR and GR by $340,629,554 annually.

Table 1: Estimated Revenue Loss by Fiscal Year

Tax Rate	Tax Year (Fiscal Year)			
	2026 (FY27)	2027 (FY28)	2028 (FY29)	2029 (FY30)
4.7%	($355,768,645)	($355,768,645)	($355,768,645)	($355,768,645)
4.6%		($348,199,100)	($348,199,100)	($348,199,100)
4.5%			($340,629,554)	($340,629,554)

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 DOR's estimated impact for this proposal.

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

FISCAL IMPACT – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
GENERAL REVENUE FUND			
Revenue Reduction - §143.124 - Private Pension Income Tax Subtraction	$0	($348,199,100)	($340,629,554)
ESTIMATED NET IMPACT ON GENERAL REVENUE FUND	**$0**	**($348,199,100)**	**($340,629,554)**

FISCAL IMPACT – Local Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
	$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

Beginning January 1, 2026, 100% of any retirement allowance received from any private pension source must be subtracted from a taxpayer's Missouri adjusted gross income. This exemption must be provided regardless of the taxpayer's filing status or income.

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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January 30, 2025

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January 30, 2025

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