

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3924H.011  
 Bill No.: HB 2205  
 Subject: Retirement Systems and Benefits - General; Retirement - State; Taxation and Revenue - Income; Taxation and Revenue - General; Department of Revenue; Elderly  
 Type: Original  
 Date: March 4, 2026

Bill Summary: This proposal modifies provisions relating to income tax on retirement income from private and public sources.

**FISCAL SUMMARY**

**ESTIMATED NET EFFECT ON GENERAL REVENUE FUND**

FUND AFFECTED	FY 2027	FY 2028	FY 2029
General Revenue*	\$0	(\$328,465,490)	(\$321,324,935)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>(\$328,465,490)</b>	<b>(\$321,324,935)</b>

\*Oversight notes for the purpose of the fiscal note, Oversight assumes a top income tax rate of 4.7% in tax year 2026 (FY 2027) and future income tax rate reductions from SB 3 (2022) will trigger consecutively (4.6% in FY 2028 and 4.5% in FY 2029+).

**ESTIMATED NET EFFECT ON OTHER STATE FUNDS**

FUND AFFECTED	FY 2027	FY 2028	FY 2029
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.

**ESTIMATED NET EFFECT ON FEDERAL FUNDS**

FUND AFFECTED	FY 2027	FY 2028	FY 2029
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)**

FUND AFFECTED	FY 2027	FY 2028	FY 2029
<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.

**ESTIMATED NET EFFECT ON LOCAL FUNDS**

FUND AFFECTED	FY 2027	FY 2028	FY 2029
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**FISCAL ANALYSIS**

**ASSUMPTION**

**§143.124.3 – 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, 2027, will allow a taxpayer to subtract 100% of their private source retirement income from their MAGI 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 2023 (the most complete year available). DOR notes that currently taxpayers report \$9,464,573,032 in taxable private pension income. As stated above, \$1,037,636,165 of that is already allowed a deduction. Accounting for the changes outlined in the proposal, this could result in another \$8,426,936,867 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 Year (Fiscal Year))**

Tax Rate	2027 (FY2028)	2028 (FY2029)	2029 (FY2030)
4.7%	(\$396,066,033)	(\$396,066,033)	(\$396,066,033)
4.6%	(\$387,639,096)	(\$387,639,096)	(\$387,639,096)
4.5%		(\$379,212,159)	(\$379,212,159)

This proposal states that these changes will begin January 1, 2027, and therefore will not impact state revenue until the first tax returns are filed in January 2028 (FY 2028).

This proposal will require DOR to modify its MO-A and MO-1040 forms (\$2,200 each form), the department’s website and individual income tax computer programming system (\$7,547). These items are estimated to cost \$11,947.

**Oversight** notes the DOR requests a 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 that 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 100% of their private source retirement income, beginning tax year 2027.

Based on tax year 2023 data, the most recent complete year available, Missouri taxpayers reported \$9,464,573,032 in taxable private pension income. However, as noted above, taxpayers with MAGI below the current thresholds are already allowed a deduction. Under current law, \$1,037,636,165 of the taxable private pension income is already exempt from Missouri income tax. B&P estimates that this proposal could exempt an additional \$8,426,936,867 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 private retirement payments could reduce TSR and GR by \$396,066,033 (top tax rate 4.7%) in FY28. Once SB 3 (2022) has fully implemented, this provision could reduce TSR and GR by \$379,212,159 annually.

Table 1: Estimated Revenue Loss by Fiscal Year  
 Tax Year (Fiscal Year)

Tax Rate	2027 (FY28)	2028 (FY29)	2029 (FY30)
4.7%	(\$396,066,033)	(\$396,066,033)	(\$396,066,033)
4.6%	(\$387,639,096)	(\$387,639,096)	(\$387,639,096)
4.5%		(\$379,212,159)	(\$379,212,159)

§143.124.5 – Public Pension Income Tax Subtraction

Officials from the **Department of Revenue (DOR)** note people with a public pension are currently eligible for a subtraction of their public pension income up to the maximum social security benefit (\$49,824 for 2026). This proposal starting January 1, 2027, would change the subtraction to 100% of their public pension income.

Section 143.124.7 is what currently makes the subtraction be reduced by the amount of Social Security income subtracted under Section 143.125. Section 143.124.7 is not changed by this proposal. While the intent appears to create a 100% deduction for all public pension income, the subtraction would still be reduced by any amount of social security subtracted from adjusted gross income (AGI). Therefore, taxpayers will under this 100% subtraction still have to subtract their taxable social security benefits.

The following examples show how the public pension subtraction works under current law.

Table 1: Public Pension Exemption - Current Law

Current Law Examples	Taxpayer A	Taxpayer B	Taxpayer C
Social Security Income	\$20,000	\$20,000	\$50,000
Public Pension Income	\$20,000	\$50,000	\$20,000
Non-SS Income	\$20,000	\$50,000	\$20,000
50% Social Security	\$10,000	\$10,000	\$25,000
Combined Income	\$30,000	\$60,000	\$45,000
Taxable SS Threshold			
<\$25k	0%		
\$25k - \$34K	50%		
>\$34k	85%		
Income over Threshold	\$5,000	\$20,000	\$50,000
Taxable	50%	85%	85%
Taxable SS	\$2,500	\$17,000	\$42,500
Public Pension Allowance	\$49,824	\$49,824	\$49,824
Less SS Subtraction	\$2,500	\$17,000	\$42,500
Final Public Pension Subtraction	\$47,324	\$32,824	\$7,324
Public Pension Income	\$20,000	\$50,000	\$20,000
Allowable Subtraction	\$47,324	\$32,824	\$7,324
<b>Taxable Public Pension</b>	<b>\$0</b>	<b>\$17,176</b>	<b>\$12,676</b>

The following examples show how the public pension subtraction would work under this proposal. Note, that removing the maximum social security as an upper subtraction limit will reset the maximum subtraction to the taxpayer's public pension income. This will result in a tax

increase for taxpayers with public pensions below the current maximum social security benefit allowance and receiving both public pension and social security benefits.

Table 2: Public Pension Exemption – Proposed

Public Pension Exemption Examples	Taxpayer A	Taxpayer B	Taxpayer C
Social Security Income	\$20,000	\$20,000	\$50,000
Public Pension Income	\$20,000	\$50,000	\$20,000
Non-SS Income	\$20,000	\$50,000	\$20,000
50% Social Security	\$10,000	\$10,000	\$25,000
Combined Income	\$30,000	\$60,000	\$45,000
Taxable SS Threshold			
<\$25k	0%		
\$25k - \$34k	50%		
>\$34k	85%		
Income over Threshold	\$5,000	\$20,000	\$50,000
Taxable	50%	85%	85%
Taxable SS	\$2,500	\$17,000	\$42,500
Public Pension Income	\$20,000	\$50,000	\$20,000
Less SS Subtraction	\$2,500	\$17,000	\$42,500
Allowable Public Pension Subtraction	\$17,500	\$33,000	\$0
Public Pension Income	\$20,000	\$50,000	\$20,000
Allowable Subtraction	\$17,500	\$33,000	\$0
<b>Taxable Public Pension</b>	<b>\$2,500</b>	<b>\$17,000</b>	<b>\$20,000</b>

In order to determine the fiscal impact, the Department used its internal Income Tax Model that contains confidential taxpayer data from tax year 2023 (the most complete year available). Based on that data, taxpayers reported \$6,373,267,853 in taxable public pension income. As noted above taxpayers are already allowed a deduction which amounts to \$5,180,714,093 of the taxable public pension income already exempt from Missouri income tax. Therefore, this proposal would lower the amount of tax-exempt income by \$1,286,382,746.

As previously stated, 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 Gain by Fiscal Year  
Tax Year (Fiscal Year)

Tax Rate	2027 (FY2028)	2028 (FY2029)	2029 (FY2030)
4.7%	\$60,459,989	\$60,459,989	\$60,459,989
4.6%	\$59,173,606	\$59,173,606	\$59,173,606
4.5%		\$57,887,224	\$57,887,224

This proposal states that these changes will begin January 1, 2027, and therefore will not impact state revenue until the first tax returns are filed in January 2028 (FY 2028).

This proposal will require DOR to modify its MO-A and MO-1040 forms (\$2,200 each form), the department's website and individual income tax computer programming system (\$7,547). These items are estimated to cost \$11,947.

**Oversight** notes the DOR requests a 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 up to the maximum social security benefit (\$49,824 for 2026) from public pension income. This proposal would allow 100% of public pension income to be subtracted starting tax year 2027.

Per Section 143.124.7 the allowable subtraction is reduced by the amount of Social Security income subtracted under Section 143.125. Therefore, taxpayers currently receive a public pension subtraction of up to \$49,824 (for 2026) less any amount subtracted for taxable social security benefits.

The following examples show how the public pension subtraction works under current law.

Table 1: Public Pension Exemption - Current Law

Public Pension Exemption - Current Law	<u>Taxpayer A</u>	<u>Taxpayer B</u>	<u>Taxpayer C</u>
Social Security Income	\$20,000	\$20,000	\$50,000
Public Pension Income	\$20,000	\$50,000	\$20,000
Non-SS Income	\$20,000	\$50,000	\$20,000
50% Social Security	\$10,000	\$10,000	\$25,000
Combined Income	\$30,000	\$60,000	\$45,000
Taxable SS Threshold			
<\$25k	0%		
\$25k - \$34K	50%		
>\$34k	85%		
Income over Threshold	\$5,000	\$20,000	\$50,000
Taxable	50%	85%	85%
Taxable SS	\$2,500	\$17,000	\$42,500
Public Pension Allowance	\$49,824	\$49,824	\$49,824
Less SS Subtraction	\$2,500	\$17,000	\$42,500
Final Public Pension Subtraction	\$47,324	\$32,824	\$7,324
Public Pension Income	\$20,000	\$50,000	\$20,000
Allowable Subtraction	\$47,324	\$32,824	\$7,324
<b>Taxable Public Pension</b>	<b>\$0</b>	<b>\$17,176</b>	<b>\$12,676</b>

B&P notes that this proposal does not remove the language in section 143.124.7. Therefore, while the intent appears to create a 100% deduction for all public pension income, the subtraction would still be reduced by any amount of social security subtracted from adjusted gross income (AGI).

In addition, removing the maximum social security as an upper subtraction limit will reset the maximum subtraction to the taxpayer's public pension income. This will result in a tax increase for taxpayers with public pensions below the current maximum social security benefit allowance and receiving both public pension and social security benefits.

The following examples show how the public pension subtraction would work under this proposal.

Table 2: Public Pension Exemption – Proposed

Public Pension Exemption - Proposed	Taxpayer A	Taxpayer B	Taxpayer C
Social Security Income	\$20,000	\$20,000	\$50,000
Public Pension Income	\$20,000	\$50,000	\$20,000
Non-SS Income	\$20,000	\$50,000	\$20,000
50% Social Security	\$10,000	\$10,000	\$25,000
Combined Income	\$30,000	\$60,000	\$45,000
Taxable SS Threshold			
<\$25k	0%		
\$25k - \$34K	50%		
>\$34k	85%		
Income over Threshold	\$5,000	\$20,000	\$50,000
Taxable	50%	85%	85%
Taxable SS	\$2,500	\$17,000	\$42,500
Public Pension Income	\$20,000	\$50,000	\$20,000
Less SS Subtraction	\$2,500	\$17,000	\$42,500
Allowable Public Pension Subtraction	\$17,500	\$33,000	\$0
Public Pension Income	\$20,000	\$50,000	\$20,000
Allowable Subtraction	\$17,500	\$33,000	\$0
<b>Taxable Public Pension</b>	<b>\$2,500</b>	<b>\$17,000</b>	<b>\$20,000</b>

Based on tax year 2023 data, Missouri taxpayers reported \$6,373,267,853 in taxable public pension income. However, as noted above taxpayers are already allowed a deduction. Under current law, \$5,180,714,093 of the taxable public pension income is already exempt from Missouri income tax. This proposal would exempt an additional \$1,286,382,746 in public pension income. B&P notes that because the social security exemption must be accounted for before the public pension subtraction, this would still leave about \$93,828,986 in public pension income still subject to state income tax.

**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 4.7% in tax year 2026 (FY 2027) and future income tax rate reductions from SB 3 (2022) will trigger consecutively (4.6% in FY 2028 and 4.5% in FY 2029+).

Oversight notes the proposed subtraction(s) begin January 1, 2027, therefore Overnight will show the fiscal impact(s) when the first tax returns are filed in January 2028 (FY 2028).

Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of additional information, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

<u>FISCAL IMPACT – State Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
<b>GENERAL REVENUE</b>			
<u>Revenue Loss</u> - (§143.124.3) Private Pension Income Tax Subtraction p.3	\$0	(\$387,639,096)	(\$379,212,159)
<u>Revenue Gain</u> - (§143.124.5) Public Pension Income Tax Subtraction p.7	\$0	\$59,173,606	\$57,887,224
<b>ESTIMATED NET IMPACT ON GENERAL REVENUE</b>	<b>\$0</b>	<b>(\$328,465,490)</b>	<b>(\$321,324,935)</b>

<u>FISCAL IMPACT – Local Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

The proposed legislation modifies provisions relating to income tax on retirement income from private and public sources.

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 - Budget and Planning  
Department of Revenue



Julie Morff  
Director  
March 4, 2026



Jessica Harris  
Assistant Director  
March 4, 2026