

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0124-01
Bill No.: SB 18
Subject: Taxation and Revenue – General; Taxation and Revenue – Income; Retirement Systems and Benefits – General; Veterans
Type: Original
Date: January 20, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	(\$4,108,000)	(\$16,477,170)	(\$16,789,000)
Total Estimated Net Effect on General Revenue Fund	(\$4,108,000)	(\$16,477,170)	(\$16,789,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials with the **Department of Revenue** (DOR) assumes that its Division of Taxation would have to add an additional line to its form MO-A for the exempted military pension income amount. Such an addition would require modifications to the MINITS and Speedup systems, with an estimated programming and testing time of 1,384 hours at a rate of \$33.36 per hours for a total cost of \$46,170 in FY 07.

DOR further assumes that additional FTE may be required to handle increased taxpayer inquiries and error corrections. However, such additional personnel would be requested through the regular appropriations process.

Officials with the **Department of Public Safety – Missouri Veterans Commission** used U.S. Department of Veterans Affairs data to assume that 31,024 Missouri veterans are currently receiving pension benefits from the U.S. Department of Defense. Such benefits comprise a monthly total of \$45.22 million, resulting in an estimated average annual military pension benefit of \$17,490 per veteran.

Oversight assumes that under present law, individuals with a modified state adjusted gross income of less than \$25,000 or a married couple with a combined income of \$32,000 are eligible

ASSUMPTION (continued)

for a military pension exemption of up to \$6,000 on their state income tax returns.

Information obtained from the **University of Missouri Economic and Policy Analysis Research Center** indicates an average Missouri individual income tax rate over the five most recent tax years (1999 through 2003) of 4.89%. Over the most recent five year tax periods in which such information is available (1998 through 2003), Missouri taxpayers claimed an average of 40.48% of their federal gross adjusted gross incomes (AGI) as exemptions and deductions. Applying that rate to \$542.6 million results in \$322.96 million of taxable military pension income.

Oversight further assumes that military pension incomes will increase of approximately 2% per year. At an average tax rate of 4.89%, the net reduction in income tax revenues to the General Revenue Fund would approximate \$16.43 million in FY07 (\$564.53 million of inflation-adjusted military pension AGI less 40.48% in deductions and exemptions taxed at an average rate of 4.89%) and \$16.79 million in FY08 (\$576.84 million of inflation-adjusted military pension AGI less 40.48% in deductions and exemptions taxed at an average rate of 4.89%).

Oversight estimates a loss to the General Revenue Fund of \$4.1 million for FY06 due to the possibility of reduced withholding and estimated income tax payments for the first six months of calendar year 2006. Oversight assumes 25% of Missouri taxpayers would adjust payments, however it should be noted that this amount could be less depending on taxpayers' awareness of the deductibility of retirement benefits in determining state income tax and their desire to adjust withholdings or estimated payments.

This legislation will decrease Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2006 (6 Mo.)	FY 2007	FY 2008
GENERAL REVENUE FUND			
<u>Loss</u> – General Revenue			
Military Pension Exemptions	(\$4,108,000)	(\$16,431,000)	(\$16,789,000)
<u>Cost</u> – DOR			
System Programming & Testing	<u>\$0</u>	<u>(\$46,170)</u>	<u>\$0</u>
TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$4,108,000)</u>	<u>(\$16,477,170)</u>	<u>(\$16,789,000)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2006 (6 Mo.)	FY 2007	FY 2008
	<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.

DESCRIPTION

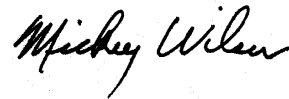
This proposal exempts from taxation all annuity, pension, and retirement income provided to a Missouri resident as a result of service in the Armed Forces of the United States.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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SOURCES OF INFORMATION

Department of Revenue
Department of Public Safety
Missouri Veterans Commission
University of Missouri
Economic and Policy Analysis Research Center



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