

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0302-01
Bill No.: SB 63
Subject: Taxation and Revenue – Income; Senior Citizens; Retirement–State; Retirement Systems and Benefits – General; Retirement – Schools; Retirement – Local Government
Type: Original
Date: January 24, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	(\$2,400,000)	(\$9,831,695)	(\$19,475,143)
Total Estimated Net Effect on General Revenue Fund	(\$2,400,000)	(\$9,831,695)	(\$19,475,143)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on Other 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 of the **Public School and Non-teacher School Employee Retirement Systems of MO, MO Local Government Employees Retirement System, Joint Committee on Public Employee Retirement, and Police Retirement System of Kansas City** assume this proposal would not fiscally impact their agencies.

Officials of the **Department of Revenue (DOR)** state that Personal Tax anticipates verification of any information submitted by the taxpayers claiming the deduction set out by this legislation. Personal Tax will have the MINITS and Speedup systems modified to allow additional lines on the MO-A. Key entry of the new line and verification of the documentation on the MO-A will require 1 Tax Season Temporary Employee for every additional 50,000 returns that claim a pension. DOR anticipates errors and correspondence will be created by this legislation. Personal Tax will need 1 Tax Processing Tech I for every 24,000 additional errors generated and 1 Tax Processing Tech I for every additional 2,400 pieces of correspondence.

The MINITS and Speedup systems will need to be modified to handle this legislation. DOR estimates that it will require 4 programmers two months to complete, or 1,384 hours at a cost of \$46,170.

Customer Assistance anticipates the need of one Tax Collection Tech for every 15,000 calls a

ASSUMPTION (continued)

year received on the income tax hotline regarding the pension exemption and adjusted notices of refund due to lack of documentation. One Tax Collection Tech will be needed for every 24,000 calls a year to the delinquent line regarding billings on denied pension exemptions due to lack of documentation.

In response to a prior similar proposal, DOR requested two FTE to handle the increase workload from the legislation. Therefore, **Oversight** will include the temporary tax assistant employees and two FTE in this proposal.

Oversight has, for fiscal note purposes only, changed the starting salary for the two Tax Processing Technicians to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Also, **Oversight** assumes DOR can make any necessary modifications to Form MO-A with existing resources.

Oversight assumed that according to data supplied by the DOR, approximately \$3.1 billion was reported in pension income in tax year 2003. Of this, approximately \$1.3 billion was deducted. The marginal income not deducted is \$1.8 billion. Previous **Oversight** research has found that approximately 69% of pension recipients are age 65 or older. Applying this percentage results in an estimated total of \$1.2 billion in annual marginal income not deducted.

Data provided by the **University of Missouri Economic & Policy Analysis Research Center** indicates that approximately 2.4 million Missouri resident individual income tax returns filed annually. **U.S. Census Bureau** figures estimate that 13.5% of the Missouri population consists of individuals age 65 or older. Using this data, **Oversight** estimates approximately 324,000 income tax filers age 65 or older. Assuming 50% of such income tax filers would exceed the exemption income limits and a marginal tax rate of 6%, the revenue loss would be \$9.7 million in FY07 and \$19.4 million in FY08.

Oversight estimates a loss to the General Revenue Fund of \$2.4 million for FY06 due to the possibility of reduced withholding and estimated income tax payments for five months of calendar year 2005. **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

ASSUMPTION (continued)

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 (10 Mo.)	FY 2007	FY 2008
GENERAL REVENUE FUND			
<u>Loss - General Revenue</u>			
Pension Exemptions (65 yrs and older)	(\$2,400,000)	(\$9,700,000)	(\$19,400,000)
<u>Costs - Dept. of Revenue</u>			
Personal Service	\$0	(\$53,418)	(\$54,559)
Fringe Benefits	\$0	(\$19,467)	(\$19,954)
Expense and Equipment	\$0	(\$12,640)	(\$630)
Programming	<u>\$0</u>	<u>(\$46,170)</u>	<u>\$0</u>
Total Costs - DOR	<u>\$0</u>	<u>(\$131,695)</u>	<u>(\$75,143)</u>
TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$2,400,000)</u>	<u>(\$9,831,695)</u>	<u>(\$19,475,143)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2006 (10 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

Under current law, public and private entity retirees may deduct up to \$6,000 of pension allowances received each year if their income is not in excess of \$32,000 for married or \$25,000 for single taxpayers. This proposal allows taxpayers ages 65 or over that do not meet income limitations to deduct \$1,000 of such income in tax year 2006, \$2,000 in tax year 2007, \$3,000 in tax year 2008, and \$6,000 in tax year 2009 and all years thereafter.

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
Public School and Non-teacher School Employee Retirement Systems of MO
MO Local Government Employees Retirement System
Joint Committee on Public Employee Retirement
Police Retirement System of Kansas City
University of Missouri
 Economic & Policy Analysis Research Center
U. S. Census Bureau



Mickey Wilson, CPA
Director
January 24, 2005