

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3649-01  
Bill No.: SB 682  
Subject: Taxation and Revenue–Income; Senior Citizens; Retirement–State; Retirement Systems and Benefits–General; Retirement–Schools; Retirement–Local Government  
Type: Original  
Date: February 1, 2006

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	(\$2,400,000)	(\$9,790,763)	(\$19,476,231)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$2,400,000)</b>	<b>(\$9,790,763)</b>	<b>(\$19,476,231)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

### FISCAL ANALYSIS

#### ASSUMPTION

Officials of the **Public School and Non-teacher School Employee Retirement Systems of MO, MO Local Government Employees Retirement System, and Police Retirement System of Kansas City** assume this proposal would not fiscally impact their agencies.

Officials of the **Department of Revenue (DOR)** state the pension exemption worksheet will need to be expanded to include an additional check box to indicate “65 or older and not meeting the income qualifications”, as well as changes to the instructions.

DOR states Personal Tax will need on additional Tax Season Temporary for every additional 50,000 returns claiming a pension for key entry and on Tax Processing Tech for every 19,000 additional errors and one Tax Processing Tech for every additional 2,400 pieces of correspondence generated by this proposal. DOR expects a high error rate especially during the phase in period.

DOR states MINITS will need to be modified to handle this legislation. Taxation estimates these modifications will require a MINITS programming cost of \$46,170. DOR plans to cover these costs with current IT staff. DOR states in the event a number of similar programs are passed, this cost could exceed current appropriation levels and result in additional funds being requested.

ASSUMPTION (continued)

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

DOR states in the event volume increases significantly in the Tax Assistance Offices, one Tax Processing Tech will be needed for every 4,800 walk-in contacts. DOR states it would ask for the field office FTE through the regular budget process if the increase in volume occurs in the field offices. DOR states this could potentially be an additional 8 FTE.

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 employee 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.

**Oversight** estimates a loss to the General Revenue Fund of \$2.4 million for FY07 due to the possibility of reduced withholding and estimated income tax payments for five 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.

Data provided by the **University of Missouri Economic & Policy Analysis Research Center** in a previous response to SB 63, L.R. 0302-01 from the previous session, indicates that

ASSUMPTION (continued)

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 FY08 and \$19.4 million in FY09.

**This legislation will decrease Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
<b>GENERAL REVENUE FUND</b>			
<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	(\$20,106)	(\$20,609)
Expense and Equipment	<u>\$0</u>	<u>(\$17,239)</u>	<u>\$1,063</u>
Total Costs - DOR	<u>\$0</u>	<u>(\$90,763)</u>	<u>(\$76,231)</u>
<b>TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$2,400,000)</u></b>	<b><u>(\$9,790,763)</u></b>	<b><u>(\$19,476,231)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
	<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

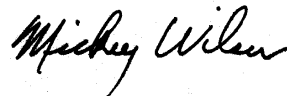
This proposal creates a deduction from an individual taxpayer's Missouri adjusted gross income for the amount of annuity, pension and retirement allowances provided to the taxpayer during the tax year from a private or non-private source. The taxpayer must be age 65 or older. The act phases in the exemption over four years to an eventual \$6,000 deduction.

The proposal takes effect for tax years beginning on or after January 1, 2007.

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  
Police Retirement System of Kansas City  
University of Missouri  
Economic & Policy Analysis Research Center



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