COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3779-01
Bill No.: SB 604
Subject: Retirement Systems and Benefits; Taxation and Revenue
Type: Original
Date: February 17, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	($11,000,000 to $23,400,000)	($11,000,000 to $23,400,000)	($11,000,000 to $23,400,000)
Total Estimated Net Effect on General Revenue Fund	**($11,000,000 to $23,400,000)**	**($11,000,000 to $23,400,000)**	**($11,000,000 to $23,400,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 4 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state that section 143.124.1 of the bill states "An individual taxpayer shall only be allowed a maximum deduction of $6,000 pursuant to this section. Taxpayers filing combined returns shall only be allowed a maximum deduction of $9,000 for each taxpayer on the combined return." This sounds as if both spouses on a combined return can each receive a $9,000 deduction, but left the singles limited to a $6,000 deduction.

If the intent is to allow each spouse a $9,000 deduction each on a combined return, and only allowing a single filer a $6,000 deduction, this will complicate the processing of the pension exemption and will create an unknown number of errors. If this language is corrected, this legislation will have a minimal impact on the department.

This legislation will require modifications to individual and corporate income tax systems. Taxation estimates these modifications will require a MINITS programming costs of $46,170 (1,384 hours). COINS will also need to be modified for a programming cost of $23,085 (692 hours). DOR proposes to cover these costs with current IT staff. Effective July 1, 2006, our IT staff will be moved to the Office of Administation pursuant to consolidation, but DOR has no reason to believe this transfer will limit their ability to absorb these costs. In the event multiple new credits/deductions are passed, this cost could exceed current appropriation levels and result in additional funds being requested.

ASSUMPTION (continued)

DOR states that a larger deduction from Missouri Adjusted Gross Income reduces the amount of taxable income and tax due.

Officials from the **University of Missouri - Economic and Policy Analysis Research Center (UM-EPARC)** state in this bill, an individual taxpayer is permitted to deduct up to $9,000 from retirement allowances compared with the current maximum of $6,000. Correspondingly, joint filers can deduct up to $18,000 per combined return.

Under current law, gross taxes collected are $4.033 billion. If the new deduction formula were adopted, gross taxes collected are estimated to decline to $4.022 billion. Thus, gross tax receipts are predicted to fall by $11 million if the new law is adopted.

Officials from the **Office of Administration - Budget and Planning (BAP)** defers to UM-EPARC for a precise estimate of the impact of this legislation. However, BAP notes that according to the Tax Expenditure Report 2006, $46.7 million of revenue was forgone due to the retirement income exemption for FY 2004. Since this proposal raises the exemption cap by 50 percent, BAP estimates the proposal will lower general revenue and total state revenues by up to $23.4 million ($46.7 million x 50%).

Oversight will range the fiscal impact of the proposal from the estimate provided by UM-EPARC to the estimate provided by BAP.

This proposal will reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
Loss - General Revenue			
Increase in income tax deduction for retirement and pension income	($11,000,000 to $23,400,000)	($11,000,000 to $23,400,000)	($11,000,000 to $23,400,000)
ESTIMATED NET EFFECT TO GENERAL REVENUE	**($11,000,000 to $23,400,000)**	**($11,000,000 to $23,400,000)**	**($11,000,000 to $23,400,000)**

FISCAL IMPACT - Local Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

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

DESCRIPTION

This proposal increases the income tax exemptions for publicly and privately funded pension and retirement income from the first six thousand dollars to the first nine thousand dollars for each taxpayer on a combined return.

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
University of Missouri - Economic and Policy Analysis Research Center
Office of Administration - Budget and Planning

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February 17, 2006