

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4898-01
Bill No.: SB 1089
Subject: Military Affairs; Retirement Systems and Benefits; Taxation and Revenue
Type: Original
Date: April 5, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	(Unknown)	(\$17,600,000 to \$26,300,000)	(\$17,600,000 to \$26,300,000)
Total Estimated Net Effect on General Revenue Fund	(Unknown)	(\$17,600,000 to \$26,300,000)	(\$17,600,000 to \$26,300,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
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 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>All</u> 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** assume the proposal would not fiscally impact their agency.

Officials from the **University of Missouri - Economic & Policy Analysis Research Center (EPARC)** state in this bill, resident filers are permitted to deduct an annuity, pension, or retirement allowance provided as a result of service in the armed forces. EPARC states they know this will reduce the tax base for Missouri's individual income tax. However, EPARC's individual income tax records do not permit them to identify this source of retirement income. Consequently, EPARC does not know the income for this group of filers. It follows that EPARC is unable to compute the effects on net general revenue.

Officials with the **Missouri Veterans Commission (VET)** assume the proposal would not fiscally impact their agency. VET did say, however, that as of September 30, 2005, a Department of Defense actuary study shows:

- 34,795 Missouri Military Retirees
- 32,348 of them receiving retirement pay (the remaining are drawing from VA benefits)

Total dollars receiving is \$48,763,000 per month.

ASSUMPTION (continued)

Oversight will utilize the estimates provided by the Veterans Commission to estimate the fiscal impact of the proposal. If 32,348 military retirees receive \$48,763,000 per month, this would equate to \$1,507 per month per retiree. Annualizing this monthly amount would equate to \$18,089 (\$1,507 x 12) per year of retirement pay being paid to each of the 32,348 retirees. Currently, the first \$6,000 of pension benefits are exempt from Missouri taxation. Therefore, Oversight will assume this proposal will exempt an additional \$12,089 (\$18,089 - \$6,000) of retirement pay for these retirees. Using a marginal tax rate of 4.5 percent, this would equate to a loss of tax collections of \$17.6 million annually (\$12,089 x 32,348 x 4.5%) to General Revenue.

Many retirees who draw a military pension also draw pensions from jobs they held after their military careers ended. Therefore, Oversight cannot assume the \$6,000 exemption has been used exclusively against military pension pay. Therefore, Oversight must assume that the \$6,000 pension exemption may still be used by many military retirees against a second or third pension income. Therefore, Oversight will range the fiscal impact of the proposal from \$17.6 million reduction in revenue to \$26.3 million (\$18,089 x 32,348 x 4.5%).

This proposal becomes effective on January 1, 2007, therefore, Oversight will utilize the estimates calculated above for fiscal years 2008 and 2009. Oversight will assume a reduction in withholding tax payments from the Department of Defense for the last six months of FY 2007 of an unknown amount.

Officials from the **Office of Administration - Budget and Planning** did not respond to our request for fiscal impact.

This proposal will reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (6 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
<u>Loss - Department of Revenue</u>			
Military retirement pension exemption	<u>(Unknown)</u>	(\$17,600,000 to <u>\$26,300,000</u>)	(\$17,600,000 to <u>\$26,300,000</u>)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(Unknown)</u>	<u>(\$17,600,000 to \$26,300,000)</u>	<u>(\$17,600,000 to \$26,300,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2007 (6 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 exempts annuities, pensions and retirement income provided as a result of service in the armed forces of the United States from income taxation.

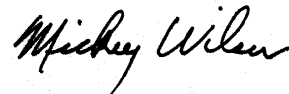
This act shall become effective January 1, 2007.

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
Missouri Veterans Commission
University of Missouri
Economic & Policy Analysis Research Center

NOT RESPONDING: Office of Administration - Budget and Planning



Mickey Wilson, CPA
Director

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