

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1003-01
Bill No.: SB 230
Subject: Elderly; Revenue Dept.; Taxation and Revenue - Income
Type: Original
Date: February 1, 2007

Bill Summary: Would exempt Social Security benefits from state income tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(Approximately \$120,120,062)	(Approximately \$123,129,524)	(Approximately \$127,133,206)
Total Estimated Net Effect on General Revenue Fund	(Approximately \$120,120,062)	(Approximately \$123,129,524)	(Approximately \$127,133,206)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	3.0	3.0	3.0
Total Estimated Net Effect on FTE	3.0	3.0	3.0

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue** (DOR) assume this proposal would allow a deduction from Missouri taxable income and reduce total state tax revenues. DOR officials stated the legislation would add subdivision (j) to subsection 3 of Section 143.121, and estimated the cost to implement the legislation as follows:

Personal Tax - This deduction would require Taxation to add a line to the Form MO-A and 2 Temporary Tax Employees for key-entry, 1 Tax Processing Technician I for every 19,000 returns to be verified by Quality Review, and 1 Tax Processing Technician I for every 2,400 pieces of correspondence. They will also require 2 Temporary Tax Employees for key-entry of 1040P & PTC forms, and 1 Tax Processing Technician I for every additional 5,000 verified returns plus correspondence on the 1040P/PTC forms.

Customer Services - will require 1 Tax Collection Technician I for every 15,000 calls a year on the income tax hot line due to lack of documentation; 1 Tax Collection Technician I for every 24,000 calls a year to the delinquency/collections lined on billings and denied deductions due to lack of documentation. They will also need 1 Tax Processing Technician I for every additional 4,800 contacts in the field offices (DOR anticipates most customers will contact the department via phone, therefore, will only request 1 FTE for each of the larger field offices including Kansas City, St. Louis, and Springfield).

Office of Administration Information Technology (ITSD/DOR) estimates that this legislation could be implemented utilizing 5 existing CIT III for 2 months at a rate of \$41,860. ITSD/DOR assumes the IT portion of this request could be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement.

The Department of Revenue submitted a total estimated cost including 8 additional FTE and related equipment and expense of \$337,796 for FY 2008, \$361,811 for FY 2009, and \$370,981 for FY 2010. In response to a similar proposal in the previous session (HB 1941, LR 4411-03), DOR assumed the need for three additional FTE Tax Processing Tech I plus four tax season temporary employees.

ASSUMPTION (continued)

Oversight will use the previous DOR assumption, and will further assume that DOR IT staff would be able to implement the proposal with existing IT staff. If multiple provisions are enacted requiring additional staffing or if unanticipated costs are incurred, DOR could request resources through the budget process.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional staff 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. In addition, Oversight has reduced certain equipment and expense items in accordance with Office of Administration budget guidelines. Oversight assumes that the relatively small number of additional staff can be located in existing office space.

Officials from the **University of Missouri Economic and Policy Analysis Research Center (EPARC)** assume this proposal would permit individual income filers to deduct the amount of Social Security benefits included in federal adjusted gross income. Under the current law, \$4.210 billion is collected from individual income in Missouri. If this law is enacted, we estimate that the impact on net general revenue will be a reduction of \$120 million as net tax due from individual income filers would fall to \$4.090 billion.

Oversight will utilize the EPARC estimate for the initial reduction in annual tax collections. Oversight has analyzed cost of living increases for social security benefits; over the past five years benefits have increased an average 2.72 percent. Oversight will assume a 2.72% annual increase in lost revenues due to anticipated cost of living increases.

Oversight is not able to estimate the potential for revenue reductions as a result of additional taxpayers filing returns who would not have filed a tax return under existing conditions, and Oversight is not able to determine the potential for revenue reductions due to the impact of this proposal on the existing Circuit Breaker and Homestead Exemption provisions.

Officials from the **Office of Administration, Division of Budget and Planning** did not respond to our request for fiscal information.

This proposal would reduce Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
<u>Costs - Department of Revenue</u>			
Personal Service (3 FTE)	(\$53,460)	(\$66,077)	(\$68,059)
Fringe Benefits	(\$23,554)	(\$29,113)	(\$29,987)
Tax Season Temporaries	(\$26,650)	(\$32,780)	(\$33,559)
Expense and Equipment	(\$16,398)	(\$1,554)	(\$1,601)
<u>Total Costs - DOR</u>	(\$120,062)	(\$129,524)	(\$133,206)
<u>Loss - Income Tax Revenue</u>			
Exclude Social Security benefits from state income tax.	<u>(Approximately \$120,000,000)</u>	<u>(Approximately \$123,000,000)</u>	<u>(Approximately \$127,000,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(Approximately \$120,120,062)</u>	<u>(Approximately \$123,129,524)</u>	<u>(Approximately \$127,133,206)</u>

Estimated Net FTE Change for General Revenue Fund	3.0 FTE	3.0 FTE	3.0 FTE
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<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<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.

FISCAL DESCRIPTION

This proposal would exempt Social Security benefits from state income tax.

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

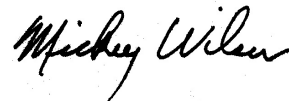
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SOURCES OF INFORMATION

Department of Revenue
University of Missouri
Economic and Policy Analysis Research Center

NOT RESPONDING

Office of Administration
Division of Budget and Planning



Mickey Wilson, CPA
Director
February 1, 2007