

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1519-01
Bill No.: SB 286
Subject: Military Affairs; Retirement Systems and Benefits; Taxation and Revenue -
Income
Type: Original
Date: February 2, 2007

Bill Summary: Would exempt military retirement benefits from state income tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(Less than \$26,420,062)	(Less than \$27,229,524)	(Less than \$28,033,206)
Total Estimated Net Effect on General Revenue Fund	(Less than \$26,420,062)	(Less than \$27,229,524)	(Less than \$28,033,206)

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 any military retirement benefits included in the Taxpayer's Federal Adjusted Gross Income, and not otherwise deducted, to be deducted from the Missouri Adjusted Gross Income, beginning January 1, 2007. This deduction would reduce the amount of tax due, and therefore, reduce the amount of state revenues.

This proposal would create an additional line on the Form MO-A, therefore, Personal Tax would require 2 Temporary Tax Employee for key-entry, 1 Tax Processing Tech I for every 19,000 returns to be verified by Quality Review, and 1 Tax Processing Tech 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 Tech I for every additional 5,000 verified returns plus correspondence on the 1040P/PTC forms.

The 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 and assumes the IT portion of this request could be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed.

The Department of Revenue submitted a total estimated cost including 3 additional FTE and related equipment and expense of \$150,091 for FY 2008, \$164,476 for FY 2009, and \$168,632 for FY 2010.

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 exclude military retirement benefits from taxable income. EPARC was not able to provide an estimate of the impact of this proposal on the General Revenue Fund.

ASSUMPTION (continued)

Officials from the **Department of Public Safety, Missouri Veterans Commission (VETS)** assume this proposal would have no fiscal impact on their organization. VETS officials stated that as September 30, 2005, there were 32,348 military retirement beneficiaries who receive \$48,698,000 in monthly benefits.

Oversight estimates that the maximum reduction in income tax revenue to the General Revenue Fund would be (\$48,698,000 per month x 12 months x 6% Missouri maximum personal income tax rate) \$35,062,560. Using an assumed effective tax rate of 4.5% provides an estimated tax revenue reduction of \$26,296,920. Oversight will round this estimate to \$26,300,000 and assume a 3% annual increase in lost revenues due to anticipated cost of living increases. Oversight assumes the actual tax revenue reduction would be less than that estimate since some taxpayers would currently be eligible for the \$6,000 retirement income exemption, and Oversight is not able to determine the potential for additional 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	<u>(\$16,398)</u>	<u>(\$1,554)</u>	<u>(\$1,601)</u>
<u>Total Costs - DOR</u>	(\$120,062)	(\$129,524)	(\$133,206)
<u>Loss - Income Tax Revenue</u>			
Exclude military retirement benefits from state income tax.	<u>(Less than \$26,300,000)</u>	<u>(Less than \$27,100,000)</u>	<u>(Less than \$27,900,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(Less than \$26,420,062)</u>	<u>(Less than \$27,229,524)</u>	<u>(Less than \$28,033,206)</u>
Estimated Net FTE Change for General Revenue Fund	3.0 FTE	3.0 FTE	3.0 FTE
<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

The proposed legislation would exempt military retirement benefits from state income tax.

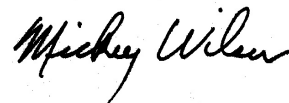
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
University of Missouri
 Economic and Policy Analysis Research Center
Department of Public safety
 Missouri Veterans Commission

NOT RESPONDING

Office of Administration
 Division of Budget and Planning



Mickey Wilson, CPA
Director
February 2, 2007