

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2252-02
Bill No.: SB 609
Subject: Retirement Systems and Benefits - General; Taxation and Revenue - Income
Type: Original
Date: March 8, 2007

Bill Summary: Would exempt certain retirement program benefits from income taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(Approximately \$129,720,215)	(Approximately \$133,429,524)	(Approximately \$136,933,245)
Total Estimated Net Effect on General Revenue Fund	(Approximately \$129,720,215)	(Approximately \$133,429,524)	(Approximately \$136,933,245)

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 **Office of the Secretary of State (SOS)** provided the following response:

Many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume there would be no added cost to BAP as a result of this proposal. This proposal would exempt Social Security benefits from income taxation for individual taxpayers with Federal Adjusted Gross Income (FAGI) equal to or less than \$70,000 and taxpayers filing combined returns with FAGI equal to or less than \$100,000. This proposal would lower general and total state revenues by a significant amount. BAP defers to DOR and EPARC for a precise estimate of the impact

Officials from the **Department of Revenue (DOR)** assume the proposal would allow a deduction for social security benefits included in the Federal Adjusted Gross Income of a taxpayer and would therefore reduce total state revenues.

DOR assumes that implementing the proposal would require Taxation to add a line to the Form MO-A. Personal Tax (PT) 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. PT would 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.

ASSUMPTION (continued)

DOR also assumes Customer Service (CS) would require 1 Tax Collection Technician I for every 15,000 calls a year on the income tax hot line due to lack of documentation and 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. CS would 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, & Springfield.

In summary, DOR submitted a cost estimate including eight FTE additional staff, and related equipment and expense with a total of \$341,424 for FY 2008, \$367,939 for FY 2009, and \$378,975 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.

Oversight will use the previous DOR assumption, and will further assume that DOR 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 filers with income \$70,000 or less and combined filers with income \$100,000 or less to deduct 100 percent of their social security benefits that are included in federal adjusted gross income. EPARC estimated that net general revenue collections would be reduced by \$67 million if the proposal was implemented.

In response to a similar proposal (HCS for HB 444, 217, 225, 239, 243, 297, 402 & 172, LR 0761-05) the **Joint Committee on Public Employee Retirement** has determined that \$1.044 Billion in benefits from plans defined in the proposal would be eligible for the deduction.

ASSUMPTION (continued)

Oversight has calculated that at the maximum Missouri personal income tax rate of 6%, those benefits would yield \$62.6 million in Missouri personal income taxes. Oversight will assume that all of the plan recipients would meet the income requirements for exempting those benefits from state income tax.

Based on the EPARC estimate of impact from the exemption of social security taxes and the calculated impact from exempting other plan benefits from state taxes, Oversight assumes the initial fiscal impact of the proposal would be (\$67 million + \$62.6 million) = \$129.6 million. 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 assumes that the other retirement benefits exempted from taxation would have similar cost of living increases; therefore, Oversight will assume a 2.72% annual increase in lost revenues due to anticipated cost of living increases.

<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)	(\$33,599)
Expense and Equipment	<u>(\$16,551)</u>	<u>(\$1,554)</u>	<u>(\$1,600)</u>
<u>Total Costs - DOR</u>	<u>(\$120,215)</u>	<u>(\$129,524)</u>	<u>(\$133,245)</u>
<u>Loss - Department of Revenue</u>			
Revenue reduction due to the exemption of social security and certain retirement benefits from income tax.	<u>(Approximately \$129,600,000)</u>	<u>(More than \$133,100,000)</u>	<u>(More than \$136,700,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(Approximately \$129,720,215)</u>	<u>(Approximately \$133,429,524)</u>	<u>(More than \$136,933,245)</u>
<u>Estimated Net FTE Change for General Revenue Fund</u>	<u>3.0 FTE</u>	<u>3.0 FTE</u>	<u>3.0 FTE</u>

<u>FISCAL IMPACT - Local Government</u>	<u>FY 2008</u> <u>(10 Mo.)</u>	<u>FY 2009</u>	<u>FY 2010</u>
	<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.

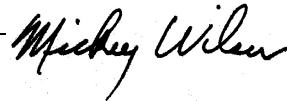
FISCAL DESCRIPTION

This proposal would exempt social security benefits and certain other retirement program 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

Office of the Secretary of State
Office of Administration
 Division of Budget and Planning
Department of Revenue
University of Missouri
 Economic Policy Analysis and Research Center



Mickey Wilson, CPA
Director
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