COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1820-01
Bill No.: SB 334
Subject: Military Affairs; Taxation and Revenue-Income
Type: Original
Date: March 10, 2009

Bill Summary: Would authorize an income tax exemption for all military retirement benefits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	($5,688,650)	($1,255,925)	$0
Total Estimated Net Effect on General Revenue Fund	**($5,688,650)**	**($1,255,925)**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on FTE	**0**	**0**	**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 2010	FY 2011	FY 2012
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State** (SOS) stated that 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 the 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 their organization as a result of this proposal. BAP officials stated that according to the FY2007 Department of Defense Statistical Report on the Military Retirement System, there were 33,656 individuals receiving military pensions in Missouri. These retirees received a total of $54.7 million per month, or $656.7 million per year. Under existing law, retirement income of $6,000 per year is already exempt from income tax. Thus, the remaining taxable military retirement income is ($656,700,000 - (33,656 * $6,000)) = $454.8 million. Assuming a 4.5% average marginal tax rate, total liability would be ($454,800,000 * 4.5%) = $20.5 million. Therefore, this proposal could reduce general and total state revenues by $20.5 million beginning in FY09.

Officials from the **Department of Revenue** (DOR) assume this proposal would create a new income tax deduction; therefore, this proposal would reduce total state revenues.

For tax years beginning on or after January 1, 2009, 100% of the retirement benefits as a result of a taxpayer's service in the armed forces would be subtracted from Missouri adjusted gross income. Modifications to tax forms and instructions, and to the MINITS system would be required.

Personal Tax would require two Temporary Tax Employees for key entry, one FTE Revenue Processing Technician I for every 19,000 returns verified, and one FTE Revenue Processing Technician I for every 2,400 pieces of additional correspondence.

ASSUMPTION (continued)

DOR officials submitted an estimate of the cost to implement this proposal including two additional employees and the related equipment and expenditures totaling $90,618 for FY 2010, $98,721 for FY 2011, and $101,683 for FY 2012. In response to a similar proposal in the previous session, DOR indicated that the proposal could be implemented with existing resources.

Oversight notes that this proposal would enact a complete exemption from individual income taxes for military retirement benefits, and Oversight assumes it could be implemented in the same way and with the same resources as the exemption provided for retirement benefits in HB 444 (2007). If unanticipated costs are incurred or if multiple proposals are enacted which increase the DOR workload, resources could be requested through the budget process.

DOR also provided an estimate of the IT cost to implement the proposal.

Officials from the **Office of Administration**, **Information Technology Services Division** (ITSD/DOR) estimate that the IT portion of this request could be implemented using four existing CIT III for three months for modifications to the MINITS system at a total cost of $53,292. ITSD/DOR assumes the proposal could be implemented with existing resources; however, if priorities shift, additional FTE or overtime would be needed.

Oversight assumes the IT portion of this proposal could be implemented with existing resources.

Officials from the **University of Missouri**, **Economic Policy Analysis and Research Center** (EPARC) assume that this proposal, if enacted, would permit a 100 percent deduction for any retirement benefits received by a filer, provided the benefits were for the taxpayer's service in the armed forces.

The income tax database does not identify filers by their military service records or whether they receive military retirement benefits. Accordingly, we are not able to quantify the impact that this proposal would have on Missouri's net general revenue.

ASSUMPTION (continued)

Oversight has made the following overall calculations and assumptions regarding this proposal, based on the information provided by BAP.

* The applicable Missouri income tax on all recipients' gross military retirement income would be ($656,700,000 x 4.5%) = $29,551,500.

* An average recipient's military retirement benefit would be ($656,700,000/33,656) = $19,513.

* The tax on an average military retirement benefit, before exemptions, and ignoring the impact any other income and deductions which those filers might have, would be ($19,513 x 4.5%) = $878.

Oversight notes that the tax on military retirement benefits would be reduced by two existing exemption programs as well as the deduction included in this proposal.

* The estimated tax reduction due to the current $6,000 exemption on retirement income would be ($6,000 x 33,656 x 4.5%) = $9,087,100.

* The estimated tax reduction due to the current provisions in HB 444 (2007) would increase each year due to the phase-in provision in that proposal.

  For FY 2010, the gross HB 444 exclusion would result in a tax reduction of (50% x $29,551,500) = $14,775,750 and the average recipient's tax reduction would be ($19,513 x 50% x $4.5%) = $439.

  For FY 2011, the gross HB 444 exclusion would result in a tax reduction of (65% x $29,551,500) = $19,208,475 and the average recipient's tax reduction would be ($19,513 x 65% x 4.5%) = $570.

  For FY 2012, the gross HB 444 exclusion would result in a tax reduction of (80% x $29,551,500) = $23,641,200 and the average recipient's tax reduction would be ($19,513 x 80% x 4.5%) = $702.

  For FY 2013 and Subsequent Years, the gross HB 444 exclusion would result in a tax reduction of (100% x $29,551,500) = $29,551,500 and the average recipient's tax reduction would be ($19,513 x 100% x 4.5%) = $878.

ASSUMPTION (continued)

Oversight notes that this proposal would provide an exemption for 100% of military retirement benefits for tax years beginning on or after January 1, 2009. Oversight assumes that tax returns for those individuals would be filed beginning in January 2010 (FY 2010) and that a full year's impact would occur in FY 2010. The amount of impact would be the tax on military retirement benefits less amounts already exempted or excluded from taxation by other provisions.

* For FY 2010, the previously exempted amount would be ($9,087,100 + $14,775,750) = $23,862,850 and the impact of this proposal would be ($29,551,500 - $23,862,850) = $5,688,650.

* For FY 2011, the previously exempted amount would be ($9,087,100 + $19,208,475) = $28,295,575 and the impact of this proposal would be ($29,551,500 - $28,295,575) = $1,255,925.

* For FY 2012, the previously exempted amount would be ($9,087,100 + $23,641,200) = $32,725,300. This proposal would have no significant fiscal impact for FY 2012 and following years since other provisions would exempt or exclude military retirement benefits from Missouri personal income tax.

FISCAL IMPACT - State Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE FUND			
Revenue reduction - tax exemption	($5,688,650)	($1,255,925)	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($5,688,650)**	**($1,255,925)**	**$0**

FISCAL IMPACT - Local Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
	$0	**$0**	**$0**

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 authorize an income tax exemption for all military retirement benefits.

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

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