COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4616-01
Bill No.: SB 847
Subject: Taxation and Revenue - Income
Type: Original
Date: March 9, 2020

Bill Summary: This proposal modifies provisions relating to income tax exemptions for certain retirement benefits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2021*	FY 2022	FY 2023	Fully Implemented (FY 2024)
General Revenue	(Unknown)	($140,848,403) to ($429,661,342)	($138,190,886) to ($421,554,525)	($135,533,369) to ($413,447,706)
Total Estimated Net Effect on General Revenue	**(Unknown)**	**($140,848,403) to ($429,661,342)**	**($138,190,886) to ($421,554,525)**	**($135,533,369) to ($413,447,706)**

*Oversight notes some taxpayers may adjust their withholding accordingly in calendar year 2021; thereby reducing tax payments in FY 2021.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
Total Estimated Net Effect on <u>All</u> Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
Total Estimated Net Effect on FTE	**0**	**0**	**0**	**0**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
Local Government	**$0**	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Section 143.124 - Individual Income Tax Public Pension Exemption

Officials from the **Office of Administration - Budget & Planning Division (B&P)** state this section would eliminate the income limits for the individual income tax exemption for public pensions. Currently taxpayers who are married filing joint may exempt 100% of their public pension income, if their Missouri Adjusted Gross Income (MAGI) is equal to or less than $100,000. All other taxpayers [with a filing status of a single individual] may exempt 100% of their public pension income if their MAGI is equal to or less than $85,000.

B&P estimates, based on data published by the Internal Revenue Service (IRS), that this section may exempt up to $1,037,304,412 in pension and annuity payments for taxpayers filing single, $257,534,374 for taxpayers filing head of household, and $257,534,374 for married filing joint taxpayers; for a total of up to $5,623,312,513 in income exempted under this section.

B&P notes that some of these pension and annuity payments may remain taxable, if they are not public pensions/annuities. Therefore, B&P will reflect the loss from this section as "up to".

However, exemptions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from SB 509 (2014).

Consequently, B&P estimates that this section could reduce Total State Revenue (TSR) and General Revenue (GR) by an amount up to $303,658,876 (top tax rate 5.4%) or an amount by up to $298,035,563 (top tax rate 5.3%) in Fiscal Year 2022. Once SB 509 (2014) has fully implemented, this section could reduce TSR and GR by up to $286,788,938 annually.

Oversight notes B&P estimates the elimination of the income thresholds set forth in current law for the Public Pension Exemption may reduce GR by an amount up to $303,658,876 in Fiscal Year 2022 provided the individual income tax rate reduction triggers created in SB 509 (2014) are not met. Provided such triggers are met, B&P estimates GR may be reduced by an amount up to $298,035,563 in Fiscal Year 2022. Once fully implemented, B&P estimates the elimination of the income thresholds for the Public Pension Exemption could reduce GR by an amount up to $286,788,938 annually.

Oversight notes the data used by B&P include pensions from private sources. Therefore, Oversight assumes the estimates provided are overstated by an amount equal to the unknown amount of private pension(s) included. B&P is unable to determine, of the total amount(s) reported within the IRS data, which are public pension(s) versus private pension(s).

ASSUMPTION (continued)

Oversight further notes taxpayers claiming the Public Pension Exemption are permitted to exempt their public pension income less the amount(s) allowed under the Social Security/Social Security Disability Exemption. Section 143.124.7 states, "for purposes of calculating the subtraction provided for, such subtraction shall be decreased by an amount equal to any Social Security benefit exemption provided for under Section 143.125." Therefore, Oversight assumes the amount(s) estimated by B&P could further be overstated by an amount equal to the total amount of Social Security Exemption required to be subtracted from taxpayer's public pension amount in order to calculate the Public Pension Exemption.

Officials from the **Missouri Department of Revenue (DOR)** state this proposed legislation would, beginning January 1, 2021, exempt all public pension(s) from taxation, regardless of an individual's income or filing status.

DOR notes Tax Year 2021 returns would not be filed until January 1, 2022 (Fiscal Year 2022).

Using IRS Individual Income Tax Data for Tax Year 2017, DOR was able to estimate the projected loss to GR from this proposal. The IRS collects data on the amount of pension and annuity moneys that are used in calculating the Federal Adjusted Gross Income (FAGI). DOR notes this amount does include both public and private pensions as well as military pensions. While this proposal would exempt the military pension and public pensions, it does not include private pensions.

Since DOR was unable to determine the amount of private pensions and exclude that money from the calculations, DOR notes the actual revenue reduction(s) recognized are expected to be less than the amount(s) stated below.

DOR assumes the following reduction to GR per fiscal year as the result of the elimination of the income thresholds per filing status for the Public Pension Exemption:

Tax Year	Current Law	TY21* / FY22	TY22* / FY23	TY23* / FY24
Tax Rate	5.40%	5.30%	5.20%	5.10%
Pensions/Annuities	($303,658,876)	($298,035,563)	($292,412,251)	($286,788,938)

*Assumes each SB 509 (2014) trigger is reached for rate reduction

Oversight notes DOR estimates the elimination of the income thresholds set forth in current law for the Public Pension Exemption may reduce GR by an amount up to $303,658,876 in Fiscal Year 2022 provided the individual income tax rate reduction triggers created in SB 509 (2014) are not met. Provided such triggers are met, DOR estimates GR may be reduced by an amount up to $298,035,563 in Fiscal Year 2022. Once fully implemented, DOR estimates the elimination of the Public Pension Exemption could reduce GR by an amount up to $286,788,938 annually.

ASSUMPTION (continued)

Oversight notes the data used by DOR include pensions from private sources. Therefore, Oversight assumes the estimates provided are overstated by an amount equal to the amount of private pension(s) included. DOR is unable to determine, of the total amount(s) reported within the IRS data, which are public pension(s) versus private pension(s).

Oversight further notes taxpayers claiming the Public Pension Exemption are permitted to exempt their public pension income less the amount(s) allowed under the Social Security/Social Security Disability Exemption. Section 143.124.7 states, "for purposes of calculating the subtraction provided for, such subtraction shall be decreased by an amount equal to any Social Security benefit exemption provided for under Section 143.125." Therefore, Oversight assumes the amount(s) estimated by DOR could further be overstated by an amount equal to the total amount of Social Security Exemption required to be subtracted from taxpayer's public pension amount in order to calculate the Public Pension Exemption.

Oversight notes, per information stated by the University of Missouri's Economic & Policy Analysis Research Center, public pension income is estimated to be approximately 61% of total pension income.

Therefore, **Oversight** estimates, using the same IRS data used by B&P and DOR, and applying the percent attributable to public pensions, the elimination of the income threshold per filing status for the Public Pension Exemption could reduce GR by the following amounts:

Fiscal Year	Fiscal Year 2022*	Fiscal Year 2023*	Fiscal Year 2024*
Tax Rate	5.30%	5.20%	5.10%
Pension/Annuities	($183,308,316)	($179,849,669)	($176,391,021)

*Oversight assumes the rate reductions pursuant to SB 509 (2014) will occur each consecutive tax year until fully implemented in Tax Year 2023.

Section 143.125 - Individual Income Tax Social Security Exemption

Officials from **B&P** state this section would eliminate the income limits for the individual income tax exemption for social security payments. Currently, taxpayers who are married filing joint may exempt 100% of their social security income, if their Missouri Adjusted Gross Income (MAGI) equal to or less than $100,000. All other taxpayers may exempt 100% of their public pension income if their MAGI is equal to or less than $85,000.

ASSUMPTION (continued)

Based on data published by the IRS, B&P estimates that this section may exempt $499,628,340 in social security payments for taxpayers filing single, $124,615,577 for taxpayers filing head of household, and $1,859,261,346 for married filing joint taxpayers; for a total of $2,483,505,263 in income exempted under this section.

However, exemptions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from SB 509 (2014). Therefore, B&P estimates that this section could reduce TSR and GR by $134,109,284 (top tax rate 5.4%) or by $131,625,779 (top tax rate 5.3%) in Fiscal Year 2022. Once SB 509 (2014) has fully implemented, this section could reduce TSR and GR by $126,658,768 annually.

Oversight notes B&P estimates the elimination of the income thresholds set forth in current law for the Social Security Exmay reduce GR by an amount up to $134,109,284 in Fiscal Year 2022 provided the individual income tax rate reduction triggers created in SB 509 (2014) are not met. Provided such triggers are met, B&P estimates GR may be reduced by an amount up to $131,625,779 in Fiscal Year 2022. Once fully implemented, B&P estimates the elimination of the income thresholds for the Social Security Exemption could reduce GR by an amount up to $126,658,768 annually.

Officials from **DOR** state this proposed legislation would, beginning January 1, 2021, exempt all social security payments from taxation, regardless of an individual's income or filing status.

DOR notes Tax Year 2021 returns would not be filed until January 1, 2022 (Fiscal Year 2022).

Using IRS Individual Income and Tax Data for Tax Year 2017, DOR was able to estimate the projected loss to GR from this proposal. The IRS collects data on the amount of social security moneys that are used in calculating taxpayer's adjusted gross income.

DOR assumes the following reduction to GR per fiscal year as the result of the elimination of the income thresholds per filing status for the individual income tax social security exemption:

Tax Year	Current Law	TY21* / FY22	TY22* / FY23	TY23* / FY24
Tax Rate	5.40%	5.30%	5.20%	5.10%
Social Security	($134,109,284)	($131,625,779)	($129,142,274)	($126,658,768)

*Assumes each SB 509 (2014) trigger is reached for rate reduction

ASSUMPTION (continued)

Oversight notes DOR estimates the elimination of the income thresholds set forth in current law for the Social Security Exemption may reduce GR by an amount up to $134,109,284 in Fiscal Year 2022 provided the individual income tax rate reduction triggers created in SB 509 (2014) are not met. Provided such triggers are met, DOR estimates GR may be reduced by an amount up to $131,625,779 in Fiscal Year 2022. Once fully implemented, DOR estimates the elimination of the income thresholds for the Social Security Exemption could reduce GR by an amount up to $126,658,768 annually.

Oversight estimates, using the same IRS data used by B&P and DOR, the elimination of the income threshold per filing status for the Social Security Exemption could reduce GR by the following amounts:

Fiscal Year	Fiscal Year 2022*	Fiscal Year 2023*	Fiscal Year 2024*
Tax Rate	5.30%	5.20%	5.10%
Social Security	($132,747,237)	($130,242,572)	($127,737,907)

*Oversight assumes the rate reductions pursuant to SB 509 (2014) will occur each consecutive tax year until fully implemented in Tax Year 2023 (Tax Year 2021, 2022 and 2023).

B&P and **DOR** assume this proposed legislation, in its entirety, could reduce GR by the following amounts:

Tax Year	Current Law	TY21* / FY22	TY22* / FY23	TY23* / FY24
Tax Rate	5.40%	5.30%	5.20%	5.10%
Pensions/Annuities	($303,658,876)	($298,035,563)	($292,412,251)	($286,788,938)
Social Security	($134,109,284)	($131,625,779)	($129,142,274)	($126,658,768)
Total GR Loss	**($437,768,160)**	**($429,661,342)**	**($421,554,525)**	**($413,447,706)**

Oversight assumes this proposed legislation, in its entirety, could reduce GR by the following amounts:

Fiscal Year	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024
Tax Rate	5.30%	5.20%	5.10%
Pension/Annuities	($183,308,316)	($179,849,669)	($176,391,021)
Social Security	($132,747,237)	($130,242,572)	($127,737,907)
Total Estimated Reduction to GR	**($316,055,553)**	**($310,092,241)**	**($304,128,928)**

*Oversight assumes the rate reductions pursuant to SB 509 (2014) will occur each consecutive tax year until fully implemented in Tax Year 2023 (Tax Year 2021, 2022 and 2023).

ASSUMPTION (continued)

Officials from the **University of Missouri's Economic & Policy Analysis Research Center (EPARC)** state this bill removes the income ceiling from both the Public Pension Calculation as well as the Social Security/Social Security Disability Calculation on Part 3, Section A and Section C of Form MO-A. Currently, these ceilings are $100,000 in Missouri Adjusted Gross Income for married filers and $85,000 in Missouri Adjusted Gross Income for all other filing statuses.

If the ceilings are removed, EPARC assumes the total Pension, Social Security, Social Security Disability and Military exemption increases by $2,657,517,037. At the current top individual income tax rate of 5.4%, this increase in the aforementioned exemption would decrease Net General Revenue up to $143,505,920 annually.

Oversight notes EPARC estimates this proposed legislation would reduce GR by an estimated $143,505,920 at the top rate of tax (currently 5.4%). Oversight notes, if the rate reductions established under SB 509 (2014) occur in consecutive tax years, until fully implemented in Tax Year 2023, GR could be reduced by the following amounts based on EPARC's underlying assumption of an increase in total deductions equal to $2,657,517,037:

Fiscal Year	Reduction to GR
Fiscal Year 2022	($140,848,403)
Fiscal Year 2023	($138,190,886)
Fiscal Year 2024	($135,533,369)

Due to the limited data available versus the complexities of this proposed legislation, Oversight will report a fiscal impact using a range beginning at the estimates provided by EPARC (recalculated to assume the tax rate reductions pursuant to SB 509 (2014) will occur in consecutive tax years until fully implemented in Tax Year 2023) and ending with estimates provided by B&P and DOR.

FISCAL IMPACT - State Government	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2024)
GENERAL REVENUE FUND				
Revenue Reduction - Section 143.124 and Section 143.125 - Elimination of income/filing status limitations in calculating Public Pension Exemption and Social Security Exemption	(Unknown)	($140,848,403) to ($429,661,342)	($138,190,886) to ($421,554,525)	($135,533,369) to ($413,447,706)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**(Unknown)**	**($140,848,403) to ($429,661,342)**	**($138,190,886) to ($421,554,525)**	**($135,533,369) to ($413,447,706)**

FISCAL IMPACT - Local Government	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2024)
	$0	**$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

Current law allows taxpayers with certain filing status and adjusted gross income below certain thresholds to deduct 100% of certain retirement and Social Security benefits from the taxpayer's Missouri adjusted gross income, with a reduced deduction as the taxpayer's adjusted gross income increases. For all tax years beginning on or after January 1, 2021, this act allows the maximum deduction to all taxpayers regardless of filing status or adjusted gross income. (Section(s) 143.124 & 143.125)

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 Administration - Budget & Planning Division
Missouri Department of Revenue
University of Missouri’s Economic & Policy Analysis Research Center

Julie Morff
Director
March 9, 2020

Ross Strope
Assistant Director
March 9, 2020