

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2670S.01I
Bill No.: SB 629
Subject: Taxation and Revenue - Income; Military Affairs; National Guard
Type: Original
Date: March 29, 2021

Bill Summary: This proposal would modify provisions relating to a tax deduction for certain military retirement benefits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue Fund*	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Total Estimated Net Effect on General Revenue	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

*Oversight assumes any additional tax deductions taken because of this proposal (if any) would not reach the \$250,000 impact to General Revenue threshold.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>Other State Funds</u>	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

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

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation may reduce Total State Revenue (TSR).

B&P states this proposed legislation may impact the calculation under Article X, Section 18(e).

Section 143.121 – Subtraction For Armed Forces Retirement Benefits

Oversight notes this section would allow any taxpayer to subtract from such taxpayer's Federal Adjusted Gross Income an amount equal to one hundred percent (100%) of any retirement benefits received by such taxpayer as a result of the taxpayer's service in the Armed Forces of the United States, including any reserve components and the National Guard, and any other military force organized under the laws of the State of Missouri.

Section 143.124 – Exemption For Armed Forces Retirement Benefits

Oversight notes this section eliminates the provision of current law that permits retirees of the Armed Forces of the United States to claim an exemption for any retirement benefits received by any taxpayer as a result of the taxpayer's service in the Armed Forces of the United States, including reserve components and the National Guard, and any other military force organized under the laws of the State of Missouri.

Legislation as a Whole

Officials from **B&P** state this proposed legislation would move the military pension deduction from Subsection 143.124.14 to Subdivision 143.121.3(12). B&P notes that both current law and this proposed legislation would allow 100% of any retirement benefits related to the military, including National Guard, to be exempt from income tax.

B&P notes that Subsection 143.124.5 also grants a subtraction for public pensions. Some taxpayers may be able to utilize both the exemption in Subsection 143.124.14 and the subtraction in Subsection 143.124.5 for the same military pension income. However, B&P assumes that some individuals may already be able to this under current law. Therefore, if this proposed legislation were to increase the number of individuals claiming both the exemption and the subtraction, then this proposed legislation may reduce TSR by an unknown minimal amount.

Officials from the **Missouri Department of Revenue (DOR)** state this proposed legislation would remove the subtraction from an individual's Missouri Adjusted Gross Income for 100% of the "retirement benefits received by any taxpayer as a result of the taxpayer's service in the Armed Forces of the United States and creates a new section which would provide a subtraction from federal adjusted gross income (to the extent included in Federal Adjusted Gross Income) for: "One hundred percent of any retirement benefits received by any taxpayer as a result of the taxpayer's service in the Armed Forces of the United States."

This proposed legislation would become effective August 28, 2021, and for most taxpayer's, the placement of the subtraction in a new section would not have any practical effect.

However, for a few taxpayers, there could be an unintended additional subtraction. Currently, subsection 5 of section 143.124 allows a subtraction from Missouri Adjusted Gross Income for a maximum of 100% of the "retirement benefits received from sources other than privately funded sources," ("Other than privately funded sources" is understood to mean "public sources," and this would include military retirement benefits.) The subtraction in subsection 5 has limitations—it may not exceed the maximum Social Security benefit available for that tax year, and there are also limitations based on filing status and Missouri Adjusted Gross Income. Nevertheless, the subtraction could include some or all of the military retirement benefits. This proposed legislation may have an additional impact on a few taxpayers resulting in a loss to the state. DOR assumes any impact would be minimal.

Oversight assumes eliminating the military retirement exemption under Section 143.124.14 and creating a new military retirement subtraction under Section 143.121.12 may provide additional benefit to some taxpayers under Section(s) 143.124.3, 143.124.5 and 143.124.8.

Currently, Section 143.124.3 allows for taxpayers to claim an exemption for taxable retirement benefits received from any non-public sources, or "private sources".

The exemption permitted under Section 143.124.3 is calculated using, and can be reduced as a result of, a taxpayer's Missouri Adjusted Gross Income (as a result of the thresholds currently recognized under current law).

This proposed legislation is creating a new subtraction in which one hundred percent (100%) of all Armed Forces retirement benefits shall be subtracted from the taxpayer's Federal Adjusted Gross Income to determine the taxpayer's Missouri Adjusted Gross Income.

Oversight assumes, with a lesser Missouri Adjusted Gross Income, taxpayers that receive taxable retirement benefits from private sources may receive additional benefit under Section 143.124.3 as the taxpayer's exemption may not be reduced by the amount the exemption would have otherwise been reduced under current law.

Currently, Section 143.124.5 allows for taxpayers to claim an exemption for taxable retirement benefits received from sources “other than privately funded sources” or “public sources”. Oversight notes public sources include any benefits received from any federal, state, or local government.

The exemption permitted under Section 143.124.5 is calculated using, and can be reduced as a result of, a taxpayer’s Missouri Adjusted Gross Income (as a result of the thresholds currently recognized under current law).

This proposed legislation is creating a new subtraction in which one hundred percent (100%) of all Armed Forces retirement benefits shall be subtracted from the taxpayer’s Federal Adjusted Gross Income to determine the taxpayer’s Missouri Adjusted Gross Income.

Oversight assumes, with a lesser Missouri Adjusted Gross Income, taxpayers that receive taxable retirement benefits from public sources may receive additional benefit under Section 143.124.5 as the taxpayer’s exemption may not be reduced by the amount the exemption would have otherwise been reduced under current law.

Currently, Section 143.124.8 allows for taxpayers to claim an exemption for taxable social security benefits received.

The exemption permitted under Section 143.124.8 is calculated using, and can be reduced as a result of, a taxpayer’s Missouri Adjusted Gross Income (as a result of the thresholds currently recognized under current law).

This proposed legislation is creating a new subtraction in which one hundred percent (100%) of all Armed Forces retirement benefits shall be subtracted from the taxpayer’s Federal Adjusted Gross Income to determine the taxpayer’s Missouri Adjusted Gross Income.

Oversight assumes, with a lesser Missouri Adjusted Gross Income, taxpayers that receive taxable social security benefits may receive additional benefit under Section 143.124.8 as the taxpayer’s exemption may not be reduced by the amount the exemption would have otherwise been reduced under current law.

Oversight assumes, then, any reduction of a taxpayer’s Missouri Adjusted Gross Income, as a result of the subtraction created under this proposed legislation, could increase the benefit some taxpayers recognize, causing a reduction in state revenues. However, Oversight assume the reduction to state revenues would be minimal.

Oversight notes that it **does not currently have the resources and/or access to state tax data** to produce an independent revenue estimate.

Oversight notes the provisions of this proposed legislation would become effective August 28, 2021 (Fiscal Year 2022). Therefore, for purposes of this fiscal note, Oversight will report a revenue reduction equal to \$0 (proposed legislation does not impact any calculation(s) under Section 143.124) to “Unknown” (proposed legislation does impact the calculation(s) under Section 143.124, increasing the benefit received for some taxpayers) beginning in Fiscal Year 2022.

Oversight assumes, for this proposed legislation, to cause a reduction to state revenues in excess of \$250,000, the amount the **reduction** to the exemption(s) under Section(s) 143.124.3, 143.124.5 and 143.124.8 would need to decrease by \$4,716,981 ($\$250,000 / 5.3\%$ (estimated Individual Income Tax rate of fiscal years reported in this fiscal note)).

Oversight does not anticipate the reduction to the exemption(s) under Section(s) 143.124.3, 143.124.5 and 143.124.8 will decrease by \$4,716,981 in any given fiscal year. Therefore, Oversight does not anticipate this proposed legislation will reduce state revenues in excess of \$250,000 in any given fiscal year.

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
<u>Revenue Reduction – Section 143.121 – New Subtraction For Retirement Benefits Received From Armed Forces Of U.S. Which Replaces Current Exemption For Retirement Benefits Received From Armed Forces Of U.S.</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
	<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.

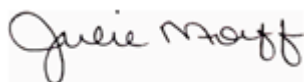
FISCAL DESCRIPTION

Current law authorizes an income tax deduction for retirement benefits received by a taxpayer for the taxpayer's service in the Armed Forces of the United States, including reserve components and the National Guard. This act makes a technical correction to ensure that one hundred percent of such benefits may be deducted without any reductions.

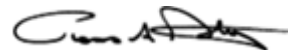
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration – Budget & Planning Division
 Missouri Department of Revenue



Julie Morff
 Director
 March 29, 2021



Ross Strobe
 Assistant Director
 March 29, 2021