COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

# FISCAL NOTE

L.R. No.: 0058S.04P
Bill No.: Perfected SS for SB 190
Subject: Taxation and Revenue - Property; Taxation and Revenue - Income
Type: Original
Date: April 13, 2023

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Bill Summary: This proposal modifies provisions relating to tax relief for seniors.

## FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2024 | FY 2025 | FY 2026 |
| General Revenue | $0 | Up to ($318,774,509) | Up to ($318,774,509) |
| | | | |
| **Total Estimated Net Effect on General Revenue** | **$0** | **Up to ($318,774,509)** | **Up to ($318,774,509)** |

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| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2024 | FY 2025 | FY 2026 |
| | | | |
| | | | |
| **Total Estimated Net Effect on Other State Funds** | **$0** | **$0** | **$0** |

Numbers within parentheses: () indicate costs or losses.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2024 | FY 2025 | FY 2026 |
| | | | |
| | | | |
| **Total Estimated Net Effect on All Federal Funds** | **$0** | **$0** | **$0** |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2024 | FY 2025 | FY 2026 |
| | | | |
| | | | |
| **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 2024 | FY 2025 | FY 2026 |
| | | | |
| **Local Government** | **$0 or (Unknown)** | **$0 or (Unknown)** | **$0 or (Unknown)** |

## FISCAL ANALYSIS

ASSUMPTION

**Section 137.1050 Property Tax Credit**

Due to time constraints, **Oversight** was unable to receive some agency responses in a timely manner and performed limited analysis. Oversight has presented this fiscal note on the best current information that DOR has or on information regarding a similar bill(s). Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

Officials from the **Department of Revenue (DOR)** note this provision establishes a tax credit for seniors who own their own home. Any county is allowed to pass an ordinance or have an election to grant seniors this tax credit. If no county chooses to have an election or pass an ordinance, this provision will have no fiscal impact.

If a county chooses to pass an ordinance or have an election in which the measure passes then they are allowed to grant a tax credit to eligible seniors. The eligible senior must be a resident of Missouri, eligible for social security benefits, be the owner of record of a residence and pay the property tax on that residence. No taxpayer can claim a credit for more than one property. The credit is equal to the difference between the amount of property tax liability owed in a year minus the property tax liability owed in the year they met all the eligibility requirements. This is creating a system that would prevent seniors from paying higher property taxes.

Based on information from the U.S. Census Bureau there are 517,086 seniors owning houses in Missouri. Using information pulled from the State Tax Commission 2021 Annual Report and the U.S. Census Bureau, the Department was able to estimate the median home price in Missouri is $163,600, the average real estate taxes paid is $1,690. Therefore, seniors paid approximately $873,875,340 in real property tax.

However this proposal is a reduction of what is owed and not a total elimination. The Department is unable to estimate the number of counties that would adopt such a proposal and how many seniors may be located in that county. The loss of revenue per county will depend on the number of seniors who own homes in their county. For example, St. Louis City only has about 10% of its homeowners over 65 while Morgan County has 44% of their homeowners are over 65. Property tax is assessed and collected by the county assessors and State Tax Commission. This will result in an unknown loss to the locals of future increased revenue.

The only property tax collected by the State is the Blind Pension Fund. The Missouri Blind Pension Fund is a fund for payment of pensions for the blind. The tax, or collection for the fund, consists of 3 cents on each $100 valuation of taxable property in the State of Missouri. Since this is a constitutional created tax, the county would still be responsible for ensuring it was paid. It would appear this would cost the county the amount that the seniors owed.

The Department administers the Senior Property Tax Credit program which allows seniors based on their income to claim a tax credit based on the property tax they actually pay. Freezing the property tax rates will result in a savings of future lost revenue (due to increasing property tax rates).

In FY 2021, there were 50,895 seniors that checked the box on the PTC form indicating they were over the age of 65+ and owned their home. They claimed $32,069,167 in tax credits. Freezing the amount each senior would owe in property tax would result in the taxpayer qualifying for a small future amount of the Senior Property Tax Credit. This could potentially result in an unknown savings of future foregone revenue.

This provision will not have an administrative impact on the Department as they do not do property tax assessment.

**Oversight** assumes this provision would grant qualifying individuals tax credits for the increases in property taxes.

**Oversight** notes, per Article III Section 38(b) of the Missouri Constitution, the Blind Pension Fund (0621) is calculated as an annual tax of three cents on each one hundred dollars valuation of taxable property ((Total Assessed Value/100)*.03). Oversight notes this proposal does not appear to alter a property's assessed value. Therefore, Oversight assumes this proposal would not impact the Blind Pension Fund.

However, **Oversight** notes the Blind Pension Fund receives increased property taxes from increases in assessed value. For example:

Assessed Value Year 1 = $100,000
Blind Pension Tax Liability = ($100,000 /100) * .03 = $30

Assessed Value Year 2 = $110,000
Blind Pension tax liability = ($110,000 /100) * .03 = $33

For purposes of this fiscal note, **Oversight** assumes qualifying taxpayers would still pay the increases due to the Blind Pension Fund. If this assumption is incorrect, this could potentially change the fiscal impact as presented in this fiscal note.

Based on Demographic Characteristics for Occupied Housing Units from the United States Census Bureau, Oversight notes there are 517,775 owner occupied housing units where the age of the householder is 65 years of age or older. Oversight is uncertain how many of these homeowners would having qualifying income or how many taxing districts would approve the tax credits. Therefore, Oversight will show a range of impact of $0 (not voter approved) to an unknown loss in revenue to local political subdivisions.

In addition, **Oversight** assumes there could be costs to implement and monitor individual credits for local taxing entities which approve a property tax credit. Oversight will show a range of impact of $0 (no subdivision ordinance or voter approval) to an unknown cost to local political subdivisions for implementation.

The proposal states property tax credits be submitted for a vote in each jurisdiction. Oversight assumes the first available election could be April 2024. Oversight assumes there could be election costs for local taxing entities occurring in FY 2024.

**Oversight** will show a range of impact of $0 (not ordinance or voter approved) to an unknown savings to General Revenue from a reduction in Senior Property Tax Credit due the issuance of local property tax credits. Oversight does not anticipate the savings to exceed $250,000.

**Sections 143.124 & 143.125**

Officials from the **Department of Revenue (DOR)** note currently some retirement benefits are subtracted from a taxpayer's adjusted gross income for determining taxable income. State, federal and local government pensions are public pensions and when calculating taxable income, based on certain income limits part of the taxpayer's public pensions are not taxable. Additionally, some social security benefits are not considered taxable when determining taxable income. These subtractions phase out at $85,000 for single and HOH filers and phase out at $100,000 for married filing combined filers.

This proposal broadens that subtraction by removing the current income limits and allows all public pension and social security retirement income to be excluded from the calculation of taxable income.

The Department notes this additional subtraction begins January 1, 2024 (FY 2025 based on when the tax returns are filed).

Using its internal Individual Income Tax Database for Missouri DOR found the following distribution of filers of public and private pensions.

| Pensions | Public | Private |
|---|---|---|
| Singles | 39% | 61% |
| Married Filing Joint | 49% | 51% |
| Head of Household (HOH) | 42% | 58% |

DOR then used information reported by taxpayers on their federal returns to calculate the amount of additional revenue that would be exempt from tax. DOR notes that SB 3 (2022) will set the individual income tax rate at 4.95% starting in tax year 2023. After that it will continue to reduce the tax rate over a period of several years until the rate equals 4.5%. At that time it will remain the 4.5%. For fiscal note purposes only, DOR will show the loss at each of those tax rates. This will result in a loss to general revenue.

| Retirement Income | Top Tax Rate | | | | |
|---|---|---|---|---|---|
| | 4.95% | 4.8% | 4.7% | 4.6% | 4.5% |
| Pensions/Annuities (Public) | ($159,619,564) | ($154,782,607) | ($151,557,970) | ($148,333,332) | ($145,108,694) |
| Social Security | ($159,154,945) | ($154,332,068) | ($151,116,816) | ($147,901,565) | ($144,686,314) |
| Total GR Loss | ($318,774,509) | ($309,114,675) | ($302,674,786) | ($296,234,897) | ($289,795,008) |

**Administrative Impact**
This proposal will would require modification to the MO-A form and to the MO-1040P form. Additionally DOR will need to modify their website and their individual income tax computer system. These changes are estimated to cost $7,193.

At this time the Department believes it can handle this work with existing resources. However, should DOR reach the number of errors or correspondence to justify additional FTE from this proposal or in combination with other proposals that will pass, DOR will seek the required number of FTE through the appropriation process. The Department is providing the number of errors or correspondence that require additional FTE.

1 FTE Associate Customer Service Rep for every 14,700 errors created
1 FTE Associate Customer Service Rep for every 5,700 pieces of correspondence generated

**Oversight** notes that the Department of Revenue assumes this proposal will require programming changes estimating $7,193. Oversight assumes DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the computer upgrade costs related to this proposal. Should the department reach the number of errors or correspondence to justify additional FTE from this proposal or in combination with other proposals that will pass; DOR could seek the required number of FTE through the appropriation process. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

**Oversight** notes DOR's estimates include data from their internal Income Tax Model.

**Oversight** notes that it does not currently have the resources and/or access to state tax data to produce a thorough independent revenue estimate and is unable to verify the revenue estimates provided by DOR.

**Oversight** will utilize DOR's projected fiscal estimated impacts of this proposal throughout the implementation of the tax rate reductions from SB 509 (2014), SB 153 (2021), and SB 3 (2022) to show the maximum low and high impact of the proposal.

In response to a similar proposal (SB 448 – 2023), officials from the **Office of Administration - Budget and Planning (B&P)** noted Section 143.124 would eliminate the income limits for the individual income tax exemption for public pensions beginning with tax year 2024. 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 may exempt 100% of their public pension income if their MAGI is equal to or less than $85,000.

In order to estimate the potential impact from this provision, B&P utilized pensions and annuity data published by the IRS. However, B&P notes that the term "pensions and annuities" includes both public and private retirement funds. For the purpose of this fiscal note, B&P used tax year 2020 (the most recent complete year available) Missouri tax return data to estimate the percentage of payments from public pensions and annuities versus private pensions and annuities.

In tax year 2020, 61% of pension and annuity payments were from private funds and 39% were from public funds for individuals filing single. For married filing combined individuals, 51% of payments were from private funds, while 49% were from public funds. For taxpayers filing as head of household, 58% of pension and annuity payments were from private sources, while 42% were from public sources.

Based on data published by the IRS, B&P estimated that this provision may exempt up to $529,569,030 in public pension and annuity payments for taxpayers filing single, $144,198,054 for taxpayers filing head of household, and $2,550,768,784 for married filing joint taxpayers; for a total of up to $3,224,535,868 in public pension and annuity income exempted under this provision.

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 3 (2022).

Consequently, B&P estimated that exempting public pension and annuity payments could reduce TSR and GR by $159,614,525 (top tax rate 4.95%) or by $154,777,722 (top tax rate 4.8%) in FY25. Once SB 3 (2022) has fully implemented, this provision could reduce TSR and GR by $145,104,114 annually.

**B&P** also noted Section 143.125 would eliminate the income limits for the individual income tax exemption for social security payments beginning with tax year 2024. Currently, taxpayers who are married filing joint may exempt 100% of their social security income, if their Missouri Adjusted Gross Income (MAGI) is equal to or less than $100,000. All other taxpayers may exempt 100% of social security income if their MAGI is equal to or less than $85,000.

Based on data published by the IRS, B&P estimates that this section may exempt $689,197,344 in social security payments for taxpayers filing single, $172,665,756 for taxpayers filing head of household, and $2,353,388,312 for married filing joint taxpayers; for a total of $3,215,251,412 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 3 (2022).

B&P estimates that this section could reduce TSR and GR by $159,154,945 (top tax rate 4.95%) or by $154,332,068 (top tax rate 4.8%) in FY25. Once SB 3 (2022) has fully implemented, this section could reduce TSR and GR by $144,686,314 annually.

<u>Summary</u>
B&P estimated that this proposal in total could reduce TSR and GR by $318,769,470 (top tax rate 4.95%) or by $309,109,790 (top tax rate 4.8%) in FY25. Once SB 3 (2022) has fully implemented, this proposal could reduce TSR and GR by $289,790,428 annually. Table 1 shows the estimated loss by provision, while Table 2 shows the estimated loss by tax and fiscal year.

Table 1: Revenue Loss by Provision

| Retirement Income | Top Tax Rate | | | | |
|---|---|---|---|---|---|
| | 4.95% | 4.8% | 4.7% | 4.6% | 4.5% |
| Pensions/Annuities | $159,614,525 | $154,777,722 | $151,553,186 | $148,328,650 | $145,104,114 |
| Social Security | $159,154,945 | $154,332,068 | $151,116,816 | $147,901,565 | $144,686,314 |
| Total GR Loss | $318,769,470 | $309,109,790 | $302,670,002 | $296,230,215 | $289,790,428 |

Table 2: Revenue Loss by Fiscal Year

| | Tax Year (Fiscal Year) | | | | |
|---|---|---|---|---|---|
| Tax Rate | 2024 (FY25) | 2025 (FY26) | 2026 (FY27) | 2027 (FY 28) | 2028 (FY29) |
| 4.95% | $318,769,470 | $318,769,470 | $318,769,470 | $318,769,470 | $318,769,470 |
| 4.80% | $309,109,790 | $309,109,790 | $309,109,790 | $309,109,790 | $309,109,790 |
| 4.70% | | $302,670,002 | $302,670,002 | $302,670,002 | $302,670,002 |
| 4.60% | | | $296,230,215 | $296,230,215 | $296,230,215 |
| 4.50% | | | | $289,790,428 | $289,790,428 |

<u>**Responses regarding the proposed legislation as a whole**</u>

Officials from the **State Tax Commission, County Employees Retirement Fund (CERF),** and the **Department of Social Services** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

**St. Charles Community College** anticipates a negative fiscal impact. The amount can't be quantified with the information available.

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

**Oversight** received a limited number of responses from local political subdivisions related to the fiscal impact of this proposal. Oversight has presented this fiscal note on the best current information available. Upon the receipt of additional responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

**Oversight** only reflects the responses received from state agencies and political subdivisions; however, other local political subdivisions were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in Oversight's database is available upon request.

| FISCAL IMPACT – State Government | FY 2024 (10 Mo.) | FY 2025 | FY 2026 |
|---|---|---|---|
| | | | |
| **GENERAL REVENUE** | | | |
| | | | |
| Savings - reduction in Senior Property Tax Credits due the issuance of local property tax credits - §137.103 - p. (3-5) | $0 | $0 or Unknown | $0 or Unknown |
| | | | |
| Revenue Reduction – §143.124 & §143.125 Allowance of maximum deduction to all taxpayers - p. (5-8) | $0 | Up to ($318,774,509) | Up to ($318,774,509) |
| | | | |
| **ESTIMATED NET EFFECT ON GENERAL REVENUE** | **$0** | **Up to ($318,774,509)** | **Up to ($318,774,509)** |

| FISCAL IMPACT – Local Government | FY 2024 (10 Mo.) | FY 2025 | FY 2026 |
|---|---|---|---|
| | | | |
| **LOCAL POLITICAL SUBDIVISIONS** | | | |
| | | | |
| Costs – vote on implementing property tax credits - §137.103 - p. (3-5) | $0 or (Unknown) | $0 or (Unknown) | $0 or (Unknown) |
| | | | |
| Costs – implementation and monitoring of property credits - §137.103 - p. (3-5) | $0 or (Unknown) | $0 or (Unknown) | $0 or (Unknown) |
| | | | |
| Revenue Loss – from property tax credit - §137.103 - p. (3-5) | $0 or (Unknown) | $0 or (Unknown) | $0 or (Unknown) |
| | | | |
| **ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS** | **$0 or (Unknown)** | **$0 or (Unknown)** | **$0 or (Unknown)** |

FISCAL IMPACT – Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

PROPERTY TAX CREDIT

This act authorizes a county to grant a property tax credit to eligible taxpayers residing in such county, provided such county has adopted an ordinance authorizing such credit, or a petition in support of such credit is delivered to the governing body of the county and is subsequently submitted to and approved by the voters, as described in the act.

Eligible taxpayers are defined as residents who: 1) are eligible for Social Security retirement benefits; 2) are the owner of record of or have a legal or equitable interest in a homestead; and 3) are liable for the payment of real property taxes on such homestead.

The amount of the property tax credit shall be equal to the difference between the real property tax liability on the homestead in a given year minus the real property tax liability on such homestead in the year in which the taxpayer became an eligible taxpayer.

A credit granted pursuant to this act shall be applied when calculating the eligible taxpayer's property tax liability for the tax year. The amount of the credit shall be noted on the statement of tax due sent to the eligible taxpayer by the county collector.

The amount of property tax credits authorized by a county pursuant to this act shall be considered tax revenue actually received by the county for the purposes of calculating property tax levies.

RETIREMENT BENEFITS INCOME TAX DEDUCTION

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, 2024, this act allows the maximum deduction to all taxpayers regardless of filing status or adjusted gross income.

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
Office of Administration - Budget and Planning
State Tax Commission
Department of Social Services
St. Charles Community College

Julie Morff
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April 13, 2023

Ross Strope
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April 13, 2023