

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 2432-01
BILL NO.: SB 585
SUBJECT: Taxation and Revenue-Income; Revenue Department; Elderly
TYPE: Original
DATE: January 20, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$24,617,347)	(\$108,200,000)	(\$119,000,000)
Total Estimated Net Effect on <u>All</u> State Funds	(\$24,617,347)	(\$108,200,000)	(\$119,000,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state the proposal would allow taxpayers to subtract from their federal adjusted gross income any social security benefits included in their federal gross income.

ADMINISTRATIVE IMPACT:

The IRS in its Spring 1999 Statistics of Income Bulletin reports that there are 166,486 federal returns filed by Missouri taxpayers reporting over \$1.2 billion in social security benefits. The Division of Taxation does not anticipate a significant impact at this time from this legislation. However, the Division of Taxation would need one Tax Processing Technician I for six months (at a cost of \$8,340) for every 30,000 additional errors generated, and one temporary tax season employee (at a cost of \$6,055) would be needed for every 360,000 returns received with this subtraction. For every 3,000 additional pieces of correspondence generated by this legislation, one Tax Processing Technician I would be needed. FTE will not be requested at this time, however, if additional FTE are needed it will be requested through the normal budget process.

This legislation would require modifications to the income tax system. The Division of Taxation and Collections estimates these modifications, including programming changes, would require 822 hours of overtime at a cost of \$20,808. Modifications to the income tax return and schedules would be completed with existing resources. State Data Center charges would increase due to the additional storage and fields to be captured. Funding of \$5,630 would be requested.

Officials of the **Office of Administration (COA)** state the Spring 1999 Statistics of Income report that Social Security benefits in Missouri adjusted gross income for 1997 were \$1,231,423,000. COA states this is the first year that Social Security benefits have been reported by state. COA also states that national Social Security benefits have been growing at about 18% annually since 1994. A 10% growth rate was used for this estimate. A 6% marginal tax rate was then used to determine the amount of individual income tax revenue lost to the state. COA assumes that taxpayers would not adjust their withholdings in FY 2001 to take advantage of this proposal, causing the revenue impact not to be felt until FY 2002.

Oversight estimates a loss to the General Revenue Fund of \$24,590,909 for FY 2001 due to the possibility of reduced withholding and estimated income tax payments for five months of calendar year 2001. **Oversight** assumes 25% of Missouri taxpayers would adjust payments, however it should be noted that this amount could be less depending on taxpayers' awareness of the deductibility of Social Security benefits in determining state income tax and their desire to adjust withholdings or estimated payments.

This proposal would result in a decrease in Total State Revenues since the Individual

Income tax collections are included in the calculation of Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
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GENERAL REVENUE FUND

<u>Loss - General Revenue Fund</u>			
Deduction of Social Security Benefits	(\$24,590,909)	(\$108,200,000)	(\$119,000,000)

<u>Cost - Department of Revenue</u>			
Reprogramming costs	(\$26,438)	\$0	\$0

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$24,617,347)</u>	<u>(\$108,200,000)</u>	<u>(\$119,000,000)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

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

DESCRIPTION

Under current federal law, a taxpayer's social security benefits are exempt from taxation unless the taxpayer's modified adjusted gross income plus one-half of the social security benefits received exceeds a base amount.

This act authorizes the subtraction from a taxpayer's federal adjusted gross income of any amount of social security benefits when calculating Missouri adjusted gross income.

The act has an effective date of January 1, 2001, and applies to all taxable years beginning on or after December 31, 2000.

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

L.R. NO. 2432-01
BILL NO. SB 585
PAGE 4 OF 4
January 20, 2000

Department of Revenue
Office of Administration

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and "R".

Jeanne Jarrett, CPA
Director
January 20, 2000