

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 2807-01
BILL NO.: SB 608
SUBJECT: Elderly; Taxation and Revenue-General-Income
TYPE: Original
DATE: January 31, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$29,042,347)	(\$125,900,000)	(\$136,700,000)
Total Estimated Net Effect on <u>All</u> State Funds	(\$29,042,347)	(\$125,900,000)	(\$136,700,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None			
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 this legislation allows a subtraction for all social security benefits and military retirement from the Missouri adjusted gross income. This proposal will become effective January 1, 2001.

According to the Spring 1999 Federal Statistics of Income Bulletin, there are 166,486 federal returns filed in Missouri with social security benefits included in federal adjusted gross income. However, the number of Missouri taxpayers with taxable military benefits is unknown. Therefore, the number of taxpayers eligible for this subtraction is unknown at this time. The Division of Taxation will need one temporary tax season employee (a cost of \$6,067) for every 260,000 returns filed with this subtraction and one Tax Processing Tech I for every 3,000 pieces of correspondence received regarding the subtraction. The Division of Taxation will also need one Tax Processing Tech I for every 30,000 errors generated by this legislation.

This legislation will require modifications to the individual income tax system. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of overtime at a cost of \$41,617. Modifications to the income tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$9,007 is requested for implementation costs and \$1,891 for on-going costs.

Oversight assumes the Department of Revenue would require 692 hours of overtime at a cost of \$20,808 for modifications to the income tax system. Oversight also estimates that funding for State Data Center charges would be \$5,630 for additional storage and fields to be captured.

REMOVE SOCIAL SECURITY BENEFITS FROM AGI

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. The amount of revenue loss is \$0 in FY 2001, \$108.2 in FY 2002 and \$119.0 million in FY 2003.

ASSUMPTION (continued)

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.

REMOVE MILITARY RETIREMENT BENEFITS FOR AGI

Oversight estimates that the revenue loss is \$17.7 million annually.

Oversight estimates a loss to the General Revenue Fund of \$4,425,000 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 military retirement 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
GENERAL REVENUE FUND			
<u>Loss to General Revenue Fund</u>			
Deduction of Social Security Benefits	(\$24,590,909)	(\$108,200,000)	(\$119,000,000)
Deduction of Military Retirement	(\$4,425,000)	(\$17,700,000)	(\$17,700,000)
<u>Cost - Department of Revenue</u>			
Reprogramming Costs	(\$26,438)	\$0	\$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$29,042,347)</u>	<u>(\$125,900,000)</u>	<u>(\$136,700,000)</u>

L.R. NO. 2807-01
BILL NO. SB 608
PAGE 4 OF 4
January 31, 2000

<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 amounts 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 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

Department of Revenue
Office of Administration



Jeanne Jarrett, CPA
Director
January 31, 2000