COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 2813-01
BILL NO.: SB 649
SUBJECT: Elderly; Revenue Dept.; Taxation and Revenue-General-Income
TYPE: Original
DATE: May 3, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	($26,438)	($148,439,381)	($202,783,304)
Total Estimated Net Effect on All State Funds	**($26,438)**	**($148,439,381)**	**($202,783,304)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on All 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 3 pages.

FISCAL ANALYSIS

ASSUMPTION

EXEMPTS ALL RETIREMENT BENEFITS

Officials of the **Department of Revenue (DOR)** state this proposal allows a subtraction for all retirement benefits to the extent they are included in the taxpayer's federal adjusted gross income.

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 $2,206 for on-going costs.

Officials of the **Office of Administration (COA)** state this proposal exempts all retirement benefits from Missouri individual income tax. There is no income limit on this deduction. The Spring 1999 Statistics of Income reports total Missouri pension income as $4,784,006,000 in tax year 1997. Four-percent growth was assumed. From the total pension benefits the amount that can already be deducted under RSMo. Section 143.124 is subtracted. The amount to be subtracted for the government pension deduction is from the 1998 Tax Expenditure Report. The fiscal note for HB 491 shows that the amount subtracted for the private pension deduction should be $60.7 million in FY 2002 and $71.3 million in FY 2003. A 6% marginal tax rate was assumed. COA staff assumes that taxpayers will not adjust their withholdings in FY 2001 to take advantage of this exemption. The revenue reduction to General Revenue would be $0 in FY 2001, $244.6 million in FY 2002 and $246.2 million in FY 2003.

Oversight recalculated the pension benefits of $4,784,006,000 at the 5.2% effective tax rate rather than the 6% maximum tax rate and arrived at $148.4 million in FY 2002 and $202.7 million in FY 2003.

In the first year of the proposal it is assumed that approximately 70% of those eligible will utilize the exemption. In FY03 it is assumed 95% will utilize the exemption.
This proposal would result in a decrease in Total State Revenues.

FISCAL IMPACT - State Government	FY 2001 (10 Mo.)	FY 2002	FY 2003
GENERAL REVENUE FUND			
Loss to General Revenue Fund			
Pension Exemption	$0	($148,439,381)	($202,783,304)
Cost - Department of Revenue			
Reprogramming costs	($26,438)	$0	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($26,438)**	**($148,439,381)**	**($202,783,304)**

FISCAL IMPACT - Local Government	FY 2001 (10 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 law, the first $6,000 in pension income received by retired state and federal employees is exempt from taxation. A similar exemption for other retirees is being phased in and will be complete in 2002. This act exempts all retirement income from taxation.

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

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Director
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