

COMMITTEE ON LEGISLATIVE RESEARCH  
 OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0340-01  
Bill No.: SB 212  
Subject: Taxation and Revenue-Income; Military Affairs; Veterans  
Type: Original  
Date: February 7, 2001

FISCAL SUMMARY

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$16,726,217)	(\$67,530,440)	(\$67,530,440)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$16,726,217)</b>	<b>(\$67,530,440)</b>	<b>(\$67,530,440)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
 This fiscal note contains 4 pages.

FISCAL ANALYSIS

## ASSUMPTION

Officials of the **Office of the Adjutant General (MNG)** state that if approved, the proposal would eliminate state income tax levied on regular and retired income for members of the National Guard survey on state and federal active duty. Impact on programs of the Office of Adjutant General/Missouri National Guard would include: benefit National Guard recruiting, soldier retention and reward military members for service to state and nation. The proposal would not fiscally impact their agency.

In a previous, similar proposal, officials of the **Department of Revenue (DOR)** stated this legislation allows a subtraction for any regular or retirement income received by a taxpayer as a result of military duty, to the extent that the income is included in the taxpayer's federal adjusted gross income. This legislation will become effective January 1, 2002.

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 130,000 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 implementation costs will be \$9,007, with on-going costs of \$2,861.

**Oversight** assumes the Department of Revenue would require 692 hours of overtime at a cost of \$34,600 for modifications to the income tax system. Oversight will allow the funding for State Data Center charges of \$9,007 for additional storage and fields to be captured.

Officials of the **Office of Administration, Budget and Planning (BAP)** have deferred to the estimate provided by Oversight.

According to the 1998 Statistical Abstract of the United States, Table no. 571, for 1996 active duty military pay plus reserve pay was approximately \$42,746,000,000. **Oversight** assumes 1.9% of the \$42,746,000,000 represents the Missouri portion (\$812,174,000) of active duty and reserve pay. Using a marginal rate of 6% would generate a revenue loss of approximately \$48,730,440 annually.

ASSUMPTION (continued)

Oversight estimates a loss to the General Revenue Fund of \$12,182,610 for FY 2002 due to the possibility of reduced withholding and estimated income tax payments for five months of calendar year 2002. 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 active duty and reserve income in determining state income tax and their desire to adjust withholdings or estimated payments.

Based on information provided by the U.S. Department of Defense, Office of the Actuary, Oversight estimates the revenue impact of this proposal as a loss to General Revenue of \$18.8 million annually. There are approximately 33,473 military retirees in Missouri. Of that number, 30,517 receive a payment for their pension. Pension payments for military retirees in Missouri total \$496,668,000 annually. The average annual pension is \$16,275 (\$496,668,000 divided by 30,517 retirees). Subtracting the \$6,000 that is already exempt from the average annual pension left a difference of \$10,275. Multiplying the \$10,275 by the number of Missouri retirees (30,517) equals \$313,566,000. Using a marginal income tax rate of 6% generates a loss of approximately \$18.8 million annually.

In addition, Oversight estimates a loss to the General Revenue Fund of \$4,500,000 for FY 2002 due to the possibility of reduced withholding and estimated income tax payments for five months of calendar year 2002. 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.**

<u>FISCAL IMPACT - State Government</u>	FY 2002	FY 2003	FY 2004
	(6 Mo.)		
<b>GENERAL REVENUE FUND</b>			
<u>Loss to General Revenue Fund</u>			
Deduction of Military Active Duty and Reserve Pay	(\$12,182,610)	(\$48,730,440)	(\$48,730,440)
Deduction of Military Retirement	(\$4,500,000)	(\$18,800,000)	(\$18,800,000)
<u>Costs - Department of Revenue</u>			
Reprogramming costs	____(\$43,607)	_____ \$0	_____ \$0
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$16,726,217)</u></b>	<b><u>(\$67,530,440)</u></b>	<b><u>(\$67,530,440)</u></b>

FISCAL IMPACT - Local Government

FY 2002 (6 Mo.)	FY 2003	FY 2004
\$0	\$0	\$0

FISCAL IMPACT - Small Business

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

DESCRIPTION

This act exempts the income of members and retiree of the military from taxation in Missouri. The provisions of this act become effective for tax years beginning on or after January 1, 2002.

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  
U.S. Department of Defense - Office of the Actuary



Jeanne Jarrett, CPA  
Director

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