COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1759-01
Bill No.: SB 403
Subject: Retirement Systems and Benefits-General; Revenue Dept.; Taxation and Revenue - Income
Type: Original
Date: February 14, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	($67,507,669)	($281,040,764)	($292,634,394)
Total Estimated Net Effect on All State Funds	**($67,507,669)**	**($281,040,764)**	**($292,634,394)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	**$0**	**$0**	**$0**

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

FISCAL ANALYSIS

ASSUMPTION

In a similar proposal, officials of the **Department of Revenue (DOR)** stated this legislation allows a subtraction for all pensions and retirement benefits received by persons sixty-five or older. 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 150,000 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 20,000 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 1,471 hours of contract labor at a cost of $49,838. 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 $9,570 is requested for implementation costs.

Officials of the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal exempts all retirement benefits for anyone 65 and over from Missouri individual income tax.

There is no income limit on this deduction. The Spring 2000 Statistics of Income reports total Missouri pension income as $5,185,709,000 in tax year 1998 (FY99). Four percent growth is 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 2001 Tax Expenditure Report. The fiscal note for HB 491 from the 1997 session shows that the amount subtracted for the private pension deduction should be $71.3 million in FY02, and will grow at 4% thereafter. A 6% marginal tax rate is assumed. BAP staff assumes that taxpayers will not adjust their withholdings in FY02 to take advantage of this exemption. BAP estimates the Revenue loss in FY03 to be $281 million and in FY04 to be $292.6 million.

Oversight estimates a loss to the General Revenue Fund of $67,448,261 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 retirement benefits in determining state income tax and their desire to adjust withholdings or estimated payments

FISCAL IMPACT - State Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
GENERAL REVENUE FUND			
Costs - Dept. of Revenue			
Programming costs	($59,408)	$0	$0
Loss - General Revenue			
Pension exemptions	($67,448,261)	($281,040,764)	($292,634,394)
TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($67,507,669)**	**($281,040,764)**	**($292,634,394)**

FISCAL IMPACT - Local Government	FY 2002 (10 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 bill authorizes an individual income tax deduction equal to100% of the amount of any annuity, pension, or retirement allowance received by a taxpayer 65 years of age or older, regardless of the amount of the allowance or the income of the retiree. Under current law, federal, state, and local government retirees may deduct up to $6,000 of pension allowances received each year if their income is not in excess of $32,000 for married or $25,000 for single taxpayers. Private retirees may deduct up to $5,000 each year with the same income limitations.

The bill will become effective 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.

This legislation will decrease Total State Revenues.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration
Division of Budget and Planning

Jeanne Jarrett, CPA
Director
February 14, 2001