

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3334-01  
Bill No.: SB 823  
Subject: Retirement Systems and Benefits-General; Taxation and Revenue - Income  
Type: Original  
Date: February 11, 2002

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$37,061,845)	(\$84,510,151)	(\$87,326,600)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$37,061,845)</b>	<b>(\$84,510,151)</b>	<b>(\$87,326,600)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
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 2003	FY 2004	FY 2005
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 5 pages.

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## FISCAL ANALYSIS

### ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this language makes the following changes to the public and private pension exemption:

1. Eliminates any public pension exemption effective January 1, 2003.
2. Effective January 1, 2001, the private pension exemption phase-in is eliminated for taxpayers under the age of 65 who meet the income threshold of \$25,000 for single filers, \$32,000 for married taxpayer filing head of household and \$16,000 for married taxpayers filing separate. Therefore, all qualified individuals will be able to take the full \$6,000 exemption.
3. Taxpayers 65 or older will receive the full \$6,000 pension exemption, regardless of their income.

\*Special note: Eliminating the phase-in effective January 1, 2001, will allow taxpayers to file amended returns and request refunds for the amount of tax paid on the pension under \$6,000.

DOR assumes the number of taxpayers eligible for this subtraction is unknown at this time. However, the DOR estimates it will need at least one Tax Processing Tech I to process errors (one for every 30,000 errors generated) and one Tax Processing Tech I to process additional correspondence (one for every 3,000 additional pieces of correspondence) generated by this legislation. Any additional FTE will be requested through the normal budget process.

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 2001 Statistics of Income reports 453,631 returns claiming pension income in tax year 1999, the claimed per return was \$12,463. Since the average pension income per return is \$12,463, BAP assumes that each return will have the maximum \$6,000 deduction. Two 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 2002 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 2% thereafter. A 6% marginal tax rate is assumed. BAP staff assumes that taxpayers will not adjust their withholdings in FY03 to take advantage of this exemption. BAP estimates the Revenue loss in FY04 to be \$93.7 million and in FY05 to be \$96.1 million.

ASSUMPTION (continued)

Based on information from officials at the **Missouri State Employee Retirement (MOSERS)**, the **U.S. Census Bureau** and the **Social Security Administration (SSA)**, **Oversight** assumes the BAP revenue loss estimate for pension exemptions should be reduced by calculating the ratio of 65 and older to total retirees:

MOSERS has 18,196 retirees, with 13,911 65 or older ( $13,911/18,199 = 76\%$ )  
U. S. Census Bureau lists 6,296 private pensions with 3,916 ( $3,916/6,296 = 62\%$ )  
Seventy-two percent (72%) of SSA recipients are age 65 or older

Then use the average of these (70%) to adjust the revenue loss estimated by BAP. Therefore, **Oversight** estimates the revenue loss for FY04 to be \$65.6 million and in FY05 to be \$67.3 million.

**Oversight** estimates a loss to the General Revenue Fund of \$16 million for FY 2003 due to the possibility of reduced withholding and estimated income tax payments for five months of calendar year 2003. 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.

According to the 2002 Tax Expenditure Report, \$8.5 million in public pension exemptions are estimated for FY04 and \$8.3 million are estimated for FY05. **Oversight** assumes that if seventy percent (70%) of these exemptions are for 65 year olds and over, then thirty percent (30%) of these exemptions would be for under 65 year old recipients. The revenue impact from eliminating the public pension exemption for under 65 year olds is estimated to be a positive \$2.6 million in FY04 and \$2.5 million in FY05.

**Oversight** assumes the revenue loss for the private pension exemptions for under 65 year old taxpayers will be \$21 million for FY03 (2002 tax year amended returns), \$21.4 million for FY04, and \$21.9 million for FY05. This is calculated by assuming thirty percent (30%) of the revenue loss estimated by BAP is for under 65 year old taxpayers. Then, using the ratio of private pension exemptions to total pension exemptions of 76% Oversight assumed the under 65 year old taxpayers could be further reduced to under 65 year old taxpayers with private pension exemptions.

**This legislation will decrease Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
<b>GENERAL REVENUE FUND</b>			
<u>Income - General Revenue</u>			
Elimination of Public Pension Exemption (under 65 years)	\$0	\$2,550,000	\$2,490,000
<u>Loss - General Revenue</u>			
Pension Exemptions (65 yrs and older)	(\$16,000,000)	(\$65,600,000)	(\$67,300,000)
Private Pension Exemption (under 65)	(\$21,000,000)	(\$21,400,000)	(\$21,900,000)
<u>Costs - Dept. of Revenue</u>			
Personal Service	(\$35,320)	(\$43,444)	(\$44,530)
Fringe Benefits	(\$12,719)	(\$15,644)	(\$16,035)
Expense and Equipment	(\$13,806)	(\$1,063)	(\$1,095)
Total Costs - DOR	<u>(\$61,845)</u>	<u>(\$60,151)</u>	<u>(\$61,660)</u>
<b>TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$37,061,845)</u></b>	<b><u>(\$84,510,151)</u></b>	<b><u>(\$87,326,600)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
	\$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 from a senior (age 65 and over) individual taxpayer's state adjusted gross income the amount of annuity, pension and retirement allowances provided to the taxpayer during the tax year. The exemption makes those amounts no longer subject to state income tax, 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

DESCRIPTION (continued)

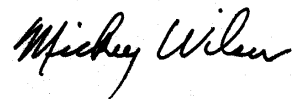
\$25,000 for single taxpayers. Private retirees may deduct up to \$5,000 each year with the same income limitations.

The bill will become effective January 1, 2003.

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  
Division of Budget and Planning  
Missouri State Employee Retirement  
U. S. Census Bureau  
Social Security Administration



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