

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2707-01
Bill No.: HB 1206
Subject: Elderly; Taxation and Revenue - General and Income
Type: Original
Date: February 22, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$15,500,000)	(\$63,724,000)	(\$65,300,000)
Total Estimated Net Effect on <u>All State Funds</u>	(\$15,500,000)	(\$63,724,000)	(\$65,300,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
Total Estimated Net Effect on <u>All Federal Funds</u>	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
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 language makes taxpayers 65 or older receive the full \$6,000 pension exemption, regardless of their income. This legislation will become effective for tax years beginning on or after January 1, 2003.

DOR would revise the current income tax instructions to include the 65 and older clause on the pension exemption worksheet. Since the 1040 has a 65 and older check box, DOR will not request birth dates. The DOR anticipates this change in pensions will cause confusion the first tax year and will generate additional errors and correspondence. Also, DOR anticipates additional call inquiries, but the impact should be minimal.

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 Season Temporary for ten months to process errors (one for every 30,000 errors generated) and one Tax Season Temporary 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.

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:

ASSUMPTION (continued)

MOSERS has 20,237 retirees, with 14,025 65 or older (14,025/20,237 = 69%)
 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 (68%) to adjust the revenue loss estimated by BAP. Therefore, **Oversight** estimates the revenue loss for FY04 to be \$63.7 million and in FY05 to be \$65.3 million.

Oversight estimates a loss to the General Revenue Fund of \$15.5 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.

This legislation will decrease Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (6 Mo.)	FY 2004	FY 2005
GENERAL REVENUE FUND			
<u>Loss - General Revenue</u>			
Pension Exemptions (65 yrs and older)	(\$15,500,000)	(\$63,700,000)	(\$65,300,000)
<u>Costs - Dept. of Revenue</u>			
Personal Service (2 Temps.)	\$0	(\$24,000)	\$0
TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$15,500,000)</u>	<u>(\$63,724,000)</u>	<u>(\$65,300,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (6 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 \$6,000 or the amount of annuity, pension and retirement allowances provided to the taxpayer during the tax year, whichever is less. The exemption makes those amounts no longer subject to state income tax, regardless of the amount of income of the retiree.

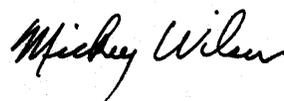
Under current law, federal, state and local government retirees may deduct up to \$6,000 of pension allowances received each year if their income is not in excess of \$32,000 for married or \$25,000 for single taxpayers. Private retirees may deduct up to \$5,000 each year with the same income limitations.

The bill will become effective January 1, 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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