COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3570-01
Bill No.: HB 1268
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	($33,700,000)	($137,572,034)	($140,513,219)
Total Estimated Net Effect on All State Funds	**($33,700,000)**	**($137,572,034)**	**($140,513,219)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
Total Estimated Net Effect on All Federal Funds	**$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 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this legislation allows all taxpayers 70 ½ years of age or older to subtract their annuities, pensions or retirement allowance from their federal adjusted gross income when filing their MO 1040, beginning with tax years on or after January 1, 2003.

DOR will have to add two lines on the Missouri income tax return. One will be for the taxpayer to supply their birth date and one line for the subtraction. Both of these lines will have to be key entered. Programming changes will need to be completed on the MINITS mainframe system and on PC applications. DOR anticipates that 8 Tax Season Temporaries will be needed to handle the additional pre-edit and key entry; one Tax Processing Tech I will be need for every 30,000 additional errors and one Tax Processing Tech I for every additional 3,000 pieces of correspondence generated by this legislation. To handle the programming and testing DOR estimates that 1,384 hours of programming will be needed at a cost of $46,170.

Officials of the **Office of Administration, Division of Budget and Planning (BAP)** assume this proposal removes income limit and allows anyone 70 ½ and over to deduct up to $6,000 of pension income.

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's estimate reflects the maximum amount of pension income that can be deducted. BAP estimates the Revenue loss in FY04 to be $93.7 million and in FY05 to be $96.1 million.

Oversight assumes to adjust the revenue loss estimated by BAP for all pension amounts and not just the pension exemption amount, the difference in the average pension and the pension exemption prior to this proposal ($12,463 minus $6,000 x 6% tax rate x 2% growth rate) must be added back. Therefore, Oversight estimates the revenue loss for all pensions would be $280.4 million in FY04 and $286.5 million in FY05.

ASSUMPTION (continued)

In a similar fiscal note, based on information from officials at the **Missouri State Employee Retirement (MOSERS)**, the **U.S. Census Bureau** and the **Social Security Administration**

(SSA), **Oversight** assumed the revenue loss estimate for pension exemptions should be reduced by calculating the ratio of 65 and older to total retirees:

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 for 65 or older (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 Oversight. However this legislation exempts only pensions received by a taxpayer age 70 ½ or older. The only information available to reduce the revenue loss estimates for age was from MOSERS, as follows:

MOSERS has 20,237 retirees, with 9,848 70 or older (9,848/20,237 = 49%)

Since the MOSERS percentage for age 65 and older closely matches the average percentage for 65 and older total population, Oversight assumes the percentage of age 70 and up from MOSERS would be a fair representation of the age 70 and older population with pensions. Therefore, the revenue loss calculated can be reduced to 49%. **Oversight** estimates the revenue loss for FY04 to be $137.4 million ($280.4 million x 49%) and in FY05 to be $140.4 million ($286.5 million x 49%).

Oversight estimates a loss to the General Revenue Fund of $33.7 million ($68.7 million x 49%) 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.

FISCAL IMPACT - State Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
GENERAL REVENUE FUND			
Loss - General Revenue Pension Exemptions (70 ½ yrs and older)	($33,700,000)	($137,400,000)	($140,400,000)

FISCAL IMPACT - State Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
Costs - Dept. of Revenue			
Personal Service (8 Temps.)	$0	($51,900)	($51,900)
Personal Service (2 FTE)	$0	($43,444)	($44,530)
Fringe Benefits	$0	($15,644)	($16,035)
Expense and Equip.	$0	($14,876)	($754)
Programming	$0	($46,170)	$0
Total Costs - DOR	$0	($172,034)	($113,219)
TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($33,700,000)**	**($137,572,034)**	**($140,513,219)**

FISCAL IMPACT - Local Government	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 70 ½ 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 allowances or of 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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