

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4128-03
Bill No.: SB 1209
Subject: Taxation and Revenue - Income; Retirement Benefits
Type: Original
Date: February 17, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	(\$14,100,000)	(\$57,500,000)	(\$58,700,000)
Total Estimated Net Effect on General Revenue Fund	(\$14,100,000)	(\$57,500,000)	(\$58,700,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Office of Administration, Division of Budget and Planning (BAP)** state this proposal has no impact on BAP.

BAP assumes this proposal doubles the current pension and retirement benefit deduction to the first twelve thousand dollars, effective for the tax year beginning January 1, 2005. The impact of this proposal would be manifest in fiscal year 2006. According to the Department of Revenue, an additional \$903.3 million could have been deducted from tax year 2002 returns had this provision been in effect. Assuming 2% annual growth, this deduction could grow to \$958.6 million by tax year 2005. Assuming the 6% marginal tax rate, this proposal would lower general revenue by \$57.5 million in fiscal year 2006, and \$58.7 million in 2007. There could also be some impact in the last half of fiscal year 2005 if taxpayers adjust any withholding downward in anticipation of this deduction. This proposal would lower total state revenue.

Officials of the **Department of Revenue (DOR)** assume this legislation increases the maximum pension exemption from \$6,000 to \$12,000. Because the legislation is just increasing the maximum deduction amount and is not changing the way the deduction is administered, there will be no additional impact to DOR. DOR defers any revenue impact to BAP.

ASSUMPTION (continued)

Oversight estimates a loss to the General Revenue Fund of \$14.1 million for FY 2005 due to the possibility of reduced withholding and estimated income tax payments for five months of calendar year 2004. **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 pension and retirement benefits in determining state income tax and their desire to adjust withholdings or estimated payments.

This proposal would decrease Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2005 (6 Mo.)	FY 2006	FY 2007
GENERAL REVENUE FUND			
<u>Loss - General Revenue</u>			
Tax deduction for time tutoring	<u>(\$14,100,000)</u>	<u>(\$57,500,000)</u>	<u>(\$58,700,000)</u>
TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$14,100,000)</u>	<u>(\$57,500,000)</u>	<u>(\$58,700,000)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2005 (6 Mo.)	FY 2006	FY 2007
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

DESCRIPTION

This proposal doubles the current pension and retirement benefit deduction to the first twelve thousand dollars, if other requirements in current law are met.

The proposal has an effective date of January 1, 2005.

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

Office of Administration
Division of Budget and Planning
Department of Revenue



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