

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0196-01  
Bill No.: HB 50  
Subject: Taxation and Revenue - General; Retirement Systems and Benefits - General  
Type: Original  
Date: February 14, 2011

---

Bill Summary: Would exempt certain retirement program distributions from state income tax.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	(Unknown)	(Unknown)	(Unknown)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 7 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
<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 FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

---

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume the proposed legislation would not result in additional costs or savings to their organization.

BAP officials noted that the intent of this legislation would appear to be to prevent the taxation of certain lump sum distributions. In this case, general and total state revenues would be reduced by an unknown amount.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume this proposal would eliminate the tax on a one-time early distribution from certain annuities or retirement plans when the distribution does not exceed 20% of the total account balance. EPARC officials noted that their data set did not contain a variable for pension and annuity balances and could not provide an estimate of the fiscal impact of this proposal.

Officials from the **Department of Revenue** (DOR) assume this proposal would add the term "retirement benefit" to the definition of "annuity, pension, retirement, or retirement allowance." and would provide an exemption from state income tax for any lump sum distribution from an annuity or other retirement plan not otherwise included in Missouri adjusted gross income. The exemption would be limited to a one-time distribution, and could not exceed twenty percent of the balance of the retirement plan.

DOR officials stated that any income tax exemption would reduce Total State Revenue.

DOR officials also provided an estimate of the IT impact to implement this proposal of \$8,904, based on 336 FTE hours of programming.

**Oversight** assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

ASSUMPTION (continued)

Officials from the **Joint Committee on Public Retirement** stated that they have reviewed this proposal and determined an actuarial study is not needed under the provisions of section 105.660, subdivision (5).

Officials from the **County Employees' Retirement Fund**, the **Missouri Local Government Employees Retirement System**, the **Missouri Sheriffs' Retirement System**, and the **Public School Retirement System of Missouri** assume this proposal would have no fiscal impact on their organizations.

Officials from the **Missouri Department of Transportation and Highway Patrol Employees' Retirement System** (MPERS) assume this proposal would eliminate the Missouri state tax on certain annuity or retirement plans. MPERS officials indicated that the proposal would have no fiscal impact on their organization.

MPERS officials stated that they had processed 124 backdrop distributions over the past year of which 48 elected a cash distribution, and indicated that persons taking such distributions may need to provide additional information to DOR to implement the proposal.

Officials from the **Missouri State Employees' Retirement System** (MOSERS) assume that the proposed legislation would, if enacted, eliminate state income tax on certain lump sum distributions from annuities or other retirement plans for such distributions occurring for tax years beginning on or after January 1, 2011. This proposal would have no fiscal impact to MOSERS.

BackDROP

The deferred retirement option provision (BackDROP) is available at retirement to qualifying state employees covered by the MSEP and the MSEP 2000 plans. BackDROP is not available to employees subject to the MSEP 2011 plan. BackDROP allows an employee to receive a lump sum payment at retirement in addition to a reduced ongoing monthly benefit. An employee may elect to receive a BackDROP payout with 1) a cash option, 2) a rollover option or 3) a combination cash and rollover option.

ASSUMPTION (continued)

Under the cash and combination cash and rollover options the lump sum cash distribution is paid directly to the member, and MOSERS is required to withhold 20% of those payments as federal income tax withholding. That distribution is considered taxable income for the year in which the member receives payment. If the member receives a cash payment prior to reaching age 59 and one-half, the member may be subject to an additional penalty of 10% of the taxable portion of the payment in addition to regular income tax.

The table below illustrates the number of members that have elected the cash distribution option as well the total distributions paid over the past three years.

Cash Distributed in BackDROP Payments

<u>Fiscal Year</u>	<u>Number of Members</u>	
	<u>Taking Cash Option</u>	<u>Total Cash Distributions</u>
FY 2010	216	\$13,696,512
FY 2009	146	\$10,381,027
FY 2008	156	\$10,872,878

**Oversight** notes that this proposal would have a fiscal impact to the state of Missouri from reduced personal income tax revenues to the extent that filers would:

- \* take distributions from retirement plans which would not be rolled into another qualified retirement plan or otherwise exempted from taxation under federal income tax provisions; and
- \* would not be eligible for any of the current state income tax exemptions provided for retirement income.

If the Total Cash Distributions reported above by MOSERS were otherwise subject to state income tax because they did not qualify for existing exclusions or exemptions, the reduction in revenues for this proposal at the maximum 6% state income tax rate would have been \$821,791 in FY 2010, \$622,862 in FY 2009, and \$652,373 in FY 2008.

ASSUMPTION (continued)

**Oversight** assumes that some distributions would become subject to these provisions but is not able to estimate the number of filers nor the amount of those distributions and will indicate an unknown negative fiscal impact to the state General Revenue Fund.

Further, Oversight notes that the responses from pension and retirement system officials indicate no fiscal impact to their organizations for this proposal; therefore, Oversight assumes this proposal would have no actuarial impact on those plans.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
<b>GENERAL REVENUE FUND</b>			
<u>Revenue reduction</u> - income tax exemption	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT - Small Business

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

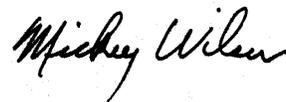
FISCAL DESCRIPTION

The proposed legislation would exempt certain retirement program distributions from state income tax.

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  
University of Missouri  
    Economic and Policy Analysis Research Center  
Joint Committee on Public Retirement  
County Employees' Retirement Fund  
Missouri Department of Transportation and Highway Patrol Employees' Retirement System  
Missouri Local Government Employees Retirement System  
Missouri Sheriffs' Retirement System  
Missouri State Employees' Retirement System  
Public School Retirement System of Missouri



Mickey Wilson, CPA  
Director  
February 14, 2011