

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 2671-01
BILL NO.: HB 1069
SUBJECT: Military Affairs; Revenue Dept.; Taxation and Revenue-General; Income
TYPE: Original
DATE: February 21, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$16,634,048)	(\$66,430,440)	(\$66,430,440)
Total Estimated Net Effect on <u>All</u> State Funds	(\$16,634,048)	(\$66,430,440)	(\$66,430,440)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Office of the Adjutant General (MNG)** state that if approved, the proposal would eliminate state income tax levied on regular and retired income for members of the National Guard survey on state and federal active duty. The proposal would not fiscally impact their agency.

Officials of the **Office of Administration (COA)** have deferred to the estimate provided by Oversight.

Officials of the **Department of Revenue (DOR)** state this legislation allows a subtraction for any regular or retirement income received by a taxpayer as a result of military duty, to the extent that the income is included in the taxpayer's federal adjusted gross income. This legislation will become effective January 1, 2001.

The number of taxpayers eligible for this subtraction is unknown at this time. The Division of Taxation will need one temporary tax season employee (a cost of \$6,067) for every 130,000 returns filed with this subtraction and one Tax Processing Tech I for every 3,000 pieces of correspondence received regarding the subtraction. The Division of Taxation will also need one Tax Processing Tech I for every 30,000 errors generated by this legislation.

This legislation will require modifications to the individual income tax system. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of overtime at a cost of \$41,617. Modifications to the income tax returns and schedules will be completed with existing resources. State Data Center implementation costs will be \$9,007, with on-going costs of \$2,861.

Oversight assumes the Department of Revenue would require 692 hours of overtime at a cost of \$20,808 for modifications to the income tax system. Oversight also estimates that funding for State Data Center charges would be \$5,630 for additional storage and fields to be captured.

According to the 1998 Statistical Abstract of the United States, Table no. 571, for 1996 active duty military pay plus reserve pay was approximately \$42,746,000,000. **Oversight** assumes 1.9% of the \$42,746,000,000 represents the Missouri portion (\$812,174,000) of active duty and reserve pay. Using a marginal rate of 6% would generate a revenue loss of approximately \$48,730,440 annually.

ASSUMPTION (continued)

Oversight estimates a loss to the General Revenue Fund of \$12,182,610 for FY 2001 due to the possibility of reduced withholding and estimated income tax payments for five months of calendar year 2001. **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 military active duty and reserve income in determining state income tax and their desire to adjust withholdings or estimated payments.

Based on information provided by the Office of the Actuary, **Oversight** has estimated the revenue impact of the military retirement portion of the proposal as a loss to General Revenue of \$17.7 million annually. There are approximately 33,586 military retirees in Missouri. Of the number, 30,145 received a payment for their pension. Pension payments for military retirees in Missouri totaled \$476,400,000. \$476,400,000 divided by 30,145 retirees equals an average annual pension of \$15,804. Subtracting the \$6,000 that is already exempt left a difference of \$9,804. Multiplying \$9,804 by the number of Missouri retirees (30,145) equals \$295,541,580. Using a marginal income tax rate of 6% would generate a loss of \$17.7 million annually.

Oversight estimates a loss to the General Revenue Fund of \$4,425,000 for FY 2001 due to the possibility of reduced withholding and estimated income tax payments for five months of calendar year 2001. **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 military retirement benefits in determining state income tax and their desire to adjust withholdings or estimated payments.

This proposal would result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
GENERAL REVENUE FUND			
<u>Loss to General Revenue Fund</u>			
Deduction of Military Active Duty and Reserve Pay	(\$12,182,610)	(\$48,730,440)	(\$48,730,440)
<u>Loss to General Revenue Fund</u>			
Deduction of Military Retirement	(\$4,425,000)	(\$17,700,000)	(\$17,700,000)

Costs - Department of Revenue

<u>FISCAL IMPACT - State Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
Reprogramming costs	(\$26,438)	\$0	\$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$16,634,048)</u>	<u>(\$66,430,440)</u>	<u>(\$66,430,440)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
	\$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 bill allows as an individual income tax deduction any amount of military income or retirement benefit received, including income received from duty with the reserve or the National Guard, on or after January 1, 2001.

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 the Adjutant General
Office of Administration
Department of Revenue



Jeanne Jarrett, CPA
Director
February 21, 2000