

COMMITTEE ON LEGISLATIVE RESEARCH
 OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0715-01
Bill No.: SB 188
Subject: Taxation and Revenue-Income; Military Affairs
Type: Original
Date: January 31, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$2,376,870)	(\$11,280,000)	(\$13,160,000)
Total Estimated Net Effect on <u>All</u> State Funds	(\$2,376,870)	(\$11,280,000)	(\$13,160,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
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 legislation phases in a subtraction for military retirement benefits included in the taxpayer's federal adjusted gross income. The exemption is equal to fifty percent of the retirement benefits for tax year 2002, sixty percent for tax year 2003, seventy percent for tax year 2004, eighty percent for tax year 2005, and one hundred percent for all tax years beginning on or after 2006.

ADMINISTRATIVE IMPACT:

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 37,500 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 1,471 hours of contract labor at a cost of \$49,838. Modifications to the income tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$9,570 is requested for implementation costs.

Oversight assumes the Department of Revenue would require 346 hours of overtime at a cost of \$17,300 for modifications to the income tax system. Oversight also estimates that funding for the State Data Center charges would be \$9,570 for additional storage and fields to be captured.

Officials of the **Office of Administration, Budget and Planning (BAP)** have deferred to the estimate provided by Oversight.

Based on information provided by the U.S. Department of Defense, Office of the Actuary, **Oversight** estimates the revenue impact of this proposal as a loss to General Revenue of \$18.8 million annually. There are approximately 33,473 military retirees in Missouri. Of that number, 30,517 receive a payment for their pension. Pension payments for military retirees in Missouri total \$496,668,000 annually. The average annual pension is \$16,275 (\$496,668,000 divided by 30,517 retirees). Subtracting the \$6,000 that is already exempt from the average annual pension left a difference of \$10,275. Multiplying the \$10,275 by the number of Missouri retirees (30,517) equals \$313,566,000. Using a marginal income tax rate of 6% generates a loss of approximately \$18.8 million annually. Since this legislation phases in the income tax exemption for military retirement benefits, the exemption is equal to fifty percent of the retirement benefits for tax year 2002, sixty percent for tax year 2003 and seventy percent for tax year 2004.

ASSUMPTION (continued)

In addition, **Oversight** estimates a loss to the General Revenue Fund of \$2,350,000 for FY 2002 due to the possibility of reduced withholding and estimated income tax payments for five months of calendar year 2002. 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 2002 (6 Mo.)	FY 2003	FY 2004
GENERAL REVENUE FUND			
<u>Loss to General Revenue Fund</u>			
Deduction of Military Retirement	(\$2,350,000)	(\$11,280,000)	(\$13,160,000)
<u>Costs - Department of Revenue</u>			
Reprogramming costs	(\$26,870)	\$0	\$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$2,376,870)</u>	<u>(\$11,280,000)</u>	<u>(\$13,160,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2002 (6 Mo.)	FY 2003	FY 2004
	\$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 would exempt military retirement benefits from Missouri income tax. Beginning January 1, 2002, fifty percent of the amount of any military retirement benefits shall be exempt. The exemption shall increase to sixty percent beginning January 1, 2003; seventy percent beginning January 1, 2004; eighty percent beginning January 1, 2005; and one hundred percent for all tax years beginning on or after January 1, 2006.

DESCRIPTION (continued)

The provisions of this act become effective on January 1, 2001, and shall apply to all taxable years beginning after December 31, 2000.

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 - Budget and Planning
U.S. Department of Defense - Office of the Actuary



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Director

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