

DEPARTMENT OF TAXATION

2003 Fiscal Impact Statement

1. **Patron** Cox

2. **Bill Number** HB 1624

3. **Committee** Passed House and Senate

House of Origin:

 Introduced

 Substitute

 Engrossed

4. **Title** Individual Income Tax: Subtraction for
Military Death Gratuity Benefits

Second House:

 In Committee

 Substitute

 X **Enrolled**

5. **Summary/Purpose:**

This bill would create an individual income tax subtraction for all military death gratuity payments paid after September 11, 2001 to the survivors of deceased military personnel killed in the line of duty.

This bill would be effective for taxable years beginning on and after January 1, 2001.

6. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

7. **Budget amendment necessary:** No.

8. **Fiscal implications:**

This bill would have a minimal effect on General Fund revenues beginning in FY 2004. It is estimated that the General Fund revenue loss in FY 2004 would be less than \$50,000.

The Department would incur minimal administrative costs as a result of this bill.

9. **Specific agency or political subdivisions affected:**

Department of Taxation

10. **Technical amendment necessary:** None.

11. **Other comments:**

Current Law

The federal government pays military death gratuity benefits to the survivors of deceased military personnel in the amount of \$6,000. One-half of these payments (\$3,000) are

exempted from federal and Virginia income taxation. The remaining \$3,000 are subject to income taxation at the federal and Virginia levels.

Federal Legislation

In 2002, federal legislation to fully exclude military death gratuity payments from federal income taxation was considered in Congress but not enacted. Reports indicate the possibility that this legislation will be reintroduced during the new session of Congress. However, even if Congress acts to fully exclude these payments, the benefit would not automatically flow through to Virginia because of selective deconformity.

Proposal

This bill would create an individual income tax subtraction for military death gratuity payments paid after September 11, 2001 to the survivors of deceased military personnel killed in the line of duty. However, survivors would only be able to subtract these payments to the extent they are included in federal adjusted gross income. Based the amount that is currently taxable, the subtraction would be equal to \$3,000 per military death gratuity payment received by the taxpayer.

This bill would be effective for taxable years beginning on and after January 1, 2001.

cc : Secretary of Finance

Date: 02/25/03 CT

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