

DEPARTMENT OF TAXATION

2012 Fiscal Impact Statement

1. **Patron** Terry G. Kilgore

3. **Committee** House Finance

4. **Title** Individual Income Tax; Subtraction for
Military Retirement Compensation

2. **Bill Number** HB 130

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would allow an individual income tax subtraction for the amount of annual retirement compensation received for service as a member of the U.S. Armed Forces or the Virginia National Guard. A taxpayer could not claim this subtraction if he has also claimed another subtraction or deduction for annual retirement compensation received for such service.

This bill would be effective for taxable years beginning on and after January 1, 2012.

6. **Budget amendment necessary:** Yes.
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7. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

7b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2011-12	\$0	GF
2012-13	(\$265.0 Million)	GF
2013-14	(\$170.4 Million)	GF
2014-15	(\$164.8 Million)	GF
2015-16	(\$159.7 Million)	GF
2016-17	(\$154.7 Million)	GF
2017-18	(\$150.7 Million)	GF

8. **Fiscal implications:**

Administrative Costs

The Department considers implementation of this bill as "routine," and does not require additional funding.

Revenue Impact

This bill would decrease General Fund revenue by \$265.0 million for Fiscal Year 2013, \$170.4 million for Fiscal Year 2014, \$164.8 million for Fiscal Year 2015, \$159.7 million for Fiscal Year 2016, \$154.7 million for Fiscal Year 2017, and \$ 150.7 million for Fiscal Year 2018.

According to the "Fiscal Year 2010 Department of Defense Statistical Report on the Military Retirement System," there are 165,580 non-disabled individuals living in Virginia who are receiving retirement compensation paid by the Department of Defense or the Coast Guard. Of these individuals, 55,973 are 65 or older and the remaining 109,607 are younger than 65. These groups receive average annual retirement compensation of \$32,485 and \$30,746 respectively. A taxpayer would not be allowed to claim this subtraction and the Medal of Honor subtraction for the same compensation. However, a taxpayer would be allowed to claim the age deduction in addition to this subtraction.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Other States

At least thirty-four states offer some form of tax benefit to those receiving military retirement compensation, although this number also includes states that provide benefits for a wide variety of retirement income. Out of those states, thirteen offer a complete tax exemption. Twenty-one states allow taxpayers to exclude a specified amount of their military retirement compensation.

Out of the surrounding states, the District of Columbia and Maryland offer exemptions ranging from \$3,000 to \$5,000. North Carolina offers a full exemption for retirees with five years of service as of August 12, 1989, otherwise the retiree may claim a deduction of up to \$4,000. In addition, Kentucky and West Virginia offer exemptions of \$41,110 and \$20,000, respectively.

Military Tax Preferences

The Commonwealth provides the following subtractions to active duty and retired military personnel:

- The lesser of the income derived from 39 calendar days of service or \$3,000 for active and inactive members of the Virginia National Guard whose rank is O3 or less;
- All military pay and allowances for service in a combat zone or qualified hazardous duty area;

- The first \$15,000 of military basic pay reduced dollar for dollar by the amount of military basic pay that exceeds \$15,000;
- All military retirement income for individuals awarded the Congressional Medal of Honor; and
- The military death gratuity payment to a survivor of deceased military personnel killed in the line of duty.

Age Deduction

The Commonwealth provides an individual income tax deduction of \$12,000 for individuals who are 65 or older that is available to all taxpayers, including retired military personnel. The amount of the deduction allowed for taxpayers whose income exceeds \$50,000 for single taxpayers and \$75,000 for married taxpayers is reduced by \$1 for every \$1 that the taxpayer's adjusted federal adjusted gross income exceeds \$50,000 for single taxpayers or \$75,000 for married taxpayers. For married taxpayers filing separately, the deduction is reduced by \$1 for every \$1 the total combined adjusted federal adjusted gross income of both spouses exceeds \$75,000.

Proposal

This bill would allow an individual income tax subtraction for the amount of annual retirement compensation received for service as a member of the U.S. Armed Forces or the Virginia National Guard. A taxpayer could not claim this subtraction if he has also claimed another subtraction or deduction for annual retirement compensation received for such service.

Taxpayers who receive military retirement compensation and who have also been awarded the Congressional Medal of Honor would not be allowed to utilize both the Medal of Honor subtraction and this subtraction because, if an item has already been excluded from income, it may not be subtracted again.

This bill would be effective for taxable years beginning on and after January 1, 2012.

Other Bills

House Bill 131 would allow an individual income tax credit to a veteran with a military service-connected disability. The tax credit would be computed by multiplying the veteran's federal adjusted gross income by his disability rating for the taxable year. If the veteran is totally disabled, then the disability rating would be 100 percent.

House Bill 1041 would clarify that a subtraction for death benefit payments from an annuity contract is allowed, provided that (i) the death benefit payment is made pursuant to an annuity contract between an annuitant and an insurance company; (ii) the death benefit payment is paid to the annuitant in a lump sum, and (iii) the death benefit payment is included in federal adjusted gross income.

House Bill 1041 would create an individual and corporate income tax credit for each new full-time job created and filled by a veteran with an annual salary of at least \$50,000. The amount of the credit would be equal to \$500 for each new full-time job that is filled with a returning military veteran, or \$1,000 if the new full-time job that is filled with a disabled military veteran.

House Bill 1050 would create an individual and corporate income tax credit for taxpayers employing former military persons in STEM internship positions in the Commonwealth. The credit would be equal to 25 percent of the wages or salary paid to the intern. The total amount of tax credits that may be allocated in a fiscal year would be limited to \$2 million.

cc : Secretary of Finance

Date: 2/2/2012 tlg
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