

DEPARTMENT OF TAXATION

2023 Fiscal Impact Statement

1. **Patron** T. Monty Mason

3. **Committee** Senate Finance and Appropriations

4. **Title** Individual Income Tax; National Guard
Subtraction

2. **Bill Number** SB 1210

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would increase the income tax subtraction for National Guard pay from \$3,000 to \$6,000 and would expand eligibility for the subtraction from persons in the ranks of O3 and below to persons in the ranks of O5 and below.

This bill would be effective for taxable years beginning on and after January 1, 2023.

6. **Budget amendment necessary:** Yes.

Item(s): Page 1, Revenue Estimates

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

7b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2023-24	(\$973,500)	GF
2024-25	(\$649,000)	GF
2025-26	(\$649,000)	GF
2026-27	(\$649,000)	GF
2027-28	(\$649,000)	GF
2028-29	(\$649,000)	GF

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") considers implementation of this bill as routine and does not require additional funding.

Revenue Impact

The provision of this bill increasing the maximum Virginia National Guard subtraction amount would have an estimated negative General Fund Revenue impact of \$973,500 in Fiscal Year 2024 and \$649,000 in Fiscal Year 2025 and thereafter. This estimate is based on the most recent data showing that approximately 3,700 individuals have claimed the

Virginia National Guard subtraction on an annual basis. The provision of this bill raising the ceiling of the military ranks eligible for this subtraction would have an unknown, but likely minimal, negative General Fund revenue impact beginning in Fiscal Year 2024.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Virginia Military Tax Preferences

Taxpayers may subtract the following military-related items for the purposes of computing Virginia taxable income:

- Wages or salaries received for service in the Virginia National Guard, not exceeding income for thirty-nine days of service or \$3,000, whichever is less. This subtraction only applies to persons in the ranks of O3 and below.
- All military pay and allowances earned while serving in a combat zone or qualified hazardous duty area, to the extent they were included in federal adjusted gross income.
- \$15,000 of military basic pay for military personnel on extended active duty for periods in excess of ninety days. The subtraction amount is reduced dollar-for-dollar by the amount which the taxpayer's military basic pay exceeds \$15,000 and will be reduced to zero if such pay is equal to or exceeds \$30,000.
- Any amount received as military retirement income by an individual awarded the Congressional Medal of Honor.
- The amount of military death gratuity payments received after September 11, 2001, by survivors of military personnel who are killed in the line of duty. This subtraction amount must be reduced dollar-for-dollar by the amount that is allowed as an exclusion from federal adjusted gross income to the survivor on his or her federal income tax return.
- For recipients aged 55 or older, up to \$10,000 in military benefits in Taxable Year 2022, up to \$20,000 in Taxable Year 2023, up to \$30,000 in Taxable Year 2024, and up to \$40,000 in Taxable Year 2025 and each taxable year thereafter.

For taxable years beginning on or after January 1, 2011, Virginia exempts from taxation the real property, including the joint real property of a husband and wife, and the land, not exceeding one acre, upon which the real property is situated of any military veteran who has been rated by the VA to have a 100 percent service-connected, permanent, and total disability, and who occupies the real property as his or her principal place of residence. The

surviving spouse of a veteran may also qualify for this exemption, so long as the following conditions are met: the veteran's death occurred on or after January 1, 2011; the surviving spouse does not remarry; and the surviving spouse continues to occupy such real property as his or her principal place of residence. The exemption applies without any restriction on the spouse's moving to a different principal place of residence

Proposed Legislation

This bill would increase the income tax subtraction for National Guard pay from \$3,000 to \$6,000 and would expand eligibility for the subtraction from persons in the ranks of O3 and below to persons in the ranks of O5 and below.

This bill would be effective for taxable years beginning on and after January 1, 2023.

Similar Legislation

House Bill 2373 would, for taxable years beginning on and after January 1, 2023, increase the income tax subtraction for National Guard pay from \$3,000 to \$5,000 and would expand eligibility for the subtraction from persons in the ranks of O3 and below to persons in the ranks of O6 and below.

cc : Secretary of Finance

Date: 1/23/2023 VB
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