

# DEPARTMENT OF TAXATION

## 2001 Fiscal Impact Statement

1. **Patron** Quayle

3. **Committee** Senate Finance

4. **Title** Individual Income Tax: Subtraction for Military Retirement Income

2. **Bill Number** SB 1058

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

This bill would create a subtraction for individuals who receive military retirement income in an amount equal to 2% of the taxpayer's first \$30,000 of retirement pay multiplied by his or her years of active duty. Military retirement income includes any retirement income from the regular armed forces, reserves and national guard, including any survivorship annuity.

The bill would be effective for the taxable years beginning on or after January 1, 2001.

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

#### 6b. **Revenue Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2000-01	\$0	GF
2001-02	<\$55.8 million>	GF
2002-03	<\$39.1 million>	GF

7. **Budget amendment necessary:** Yes.

ITEM(S): Page 1, Revenue Estimates

### 8. **Fiscal implications:**

#### **Administrative Costs**

While this bill does have costs associated with systems development, these cannot be ascertained at this time. The cost for implementing a **single** piece of legislation cannot be calculated precisely due to economies of scale. The actual cost to implement **all** legislation enacted during a given session will more than likely be less than the sum of

the costs attributed to individual bills. Further, the ability to accurately predict costs is complicated because TAX is replacing its current database system. As a result, legislative changes may need to be made to both the current and the future system, depending on the effective date. Therefore, TAX is not providing specific systems costs for this bill, but will calculate the total for all tax bills once they have been acted upon favorably. Other administrative costs to implement this bill would be minimal.

### **Revenue Impact**

This bill is estimated to reduce General Fund revenues by \$55.8 million in Fiscal Year 2002, \$39.1 million in Fiscal Year 2003, and \$40.9 million in Fiscal Year 2004.

Although the bill is effective for taxable years beginning on or after January 1, 2001, the revenue estimate assumes that the effect on the General Fund revenues associated with this bill in the first six months of calendar year 2001 will not be realized until after the start of Fiscal Year 2002. The Fiscal Year 2002 impact, therefore represents 18 months of reduced tax liabilities.

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

Department of Taxation

### **10. Technical amendment necessary: Yes.**

To ensure that recipients of the Congressional Medal of Honor do not get a double benefit, the following amendment is recommended:

Page 4, Line 178, after Commonwealth

Insert: provided that the military retirement income has not been otherwise subtracted, deducted or exempted under this section

### **11. Other comments:**

#### **Generally**

Former military personnel who are residents of Virginia are liable for Virginia income tax on any retirement income from the armed forces, reserves or national guard.

This bill would create a subtraction for individuals that receive military retirement income in an amount equal to 2% of the taxpayer's first \$30,000 of retirement pay multiplied by his or her years of active duty. Military retirement income includes any retirement income from the regular armed forces, reserves and national guard, including any survivorship annuity.

## Virginia Military Tax Benefits

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

- 1) 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;
- 2) All military pay for service in a combat zone or qualified hazardous duty area;
- 3) The first \$15,000 of military active duty pay reduced dollar for dollar by the amount of military basic pay that exceeds \$30,000; and
- 4) All military retirement income for individuals awarded the Congressional Medal of Honor.

## Technical Amendment - Double Benefit for Congressional Medal of Honor Awardees

Individuals who have been awarded the Congressional Medal of Honor and receive military retirement pay would get a double benefit from this bill because all of their military retirement income is currently exempt from Virginia taxation.

## Taxation of Military Retirement Pay by Other States

Many states provide income tax relief to all individuals for retirement income regardless of its source. Some states provide specific relief for military retirement income.

- ◆ Alabama, Idaho, Mississippi, and Wisconsin excludes all military retirement pay from taxation.
- ◆ The following states provide a limited exclusion for military retirement pay: Arizona (\$2,500), District of Columbia (\$3,000 for those individuals age 62 or older), Indiana (\$2,000 for those individuals age 62 or older), Maryland (\$2,500 for those individuals age 55 or older), North Dakota (\$5,000 for those individuals age 62 or older), Oklahoma (\$5,500), and West Virginia (\$2,000).

## **Other Legislation**

**House Bill 2288** is identical to this bill except that it is effective for taxable years beginning on and after January 1, 2002 and it does not specify that survivorship annuities qualify for the subtraction.

cc: Secretary of Finance

**Date:** 1/20/01/initials

