

# DEPARTMENT OF TAXATION

## 2002 Fiscal Impact Statement

1. **Patron** Barlow

3. **Committee** House Finance

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

2. **Bill Number** HB 740

**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.

The bill would be effective for the taxable years beginning on or after January 1, 2003.

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

#### 6a. **Expenditure Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2001-02	\$0	GF
2002-03	\$0	GF
2003-04	\$94,741	GF

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

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2001-02	\$0	GF
2002-03	<\$19.6 million>	GF
2003-04	<\$39.9 million>	GF

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

ITEM(S): Page 1, Revenue Estimates  
283 and 285, Department of Taxation

8. **Fiscal implications:**

#### **Administrative Costs**

There are costs associated with modifying the system to implement this legislation. TAX is currently in the process of replacing its automated systems as part of a partnership with AMS. As a result, TAX will be maintaining two systems – the current STARS system and the new IRMS system – for a period of time as a contingency. The contract with AMS generally provides for the costs of implementing routine legislation. However, changes attributable to major legislation are not within the scope of the contract.

TAX will incur \$94,741 in costs in Fiscal Year 2004 for changes to its existing system. Changes to the new IRMS system will be covered under the AMS contract changes. Other administrative costs to implement this bill would be minimal.

### **Revenue Impact**

This bill is estimated to reduce General Fund revenues by \$19.6 million in Fiscal Year 2003, \$39.9 million in Fiscal Year 2004, and \$41.5 million in Fiscal Year 2005.

The revenue impact assumes that the one year delay in the implementation date of this provision allows time for withholding tables to be adjusted prior to the start of taxable year 2003. For this reason, it is assumed that there will be no delay in the revenue effect of this bill. However, the Fiscal Year 2003 revenue effect represents only six months of reduced income tax liability because the taxable year begins one-half way through the fiscal year.

### **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 176, 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.

### **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.

- ◆ Idaho, Massachusetts, Michigan, Mississippi, and Wisconsin excludes all military retirement pay from taxation.
- ◆ The following states provide a limited exclusion for military retirement pay: Alabama (\$4,750), 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), Kansas (\$6,000), Maine (\$6,000), Maryland (\$2,500 for those individuals age 55 or older), North Dakota (\$5,000 for those individuals age 62 or older), Oklahoma (\$5,500), South Carolina (\$10,000 age 65 and older) and West Virginia (\$2,000).

cc : Secretary of Finance

Date: 1/21/02/NMS

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