

**DEPARTMENT OF TAXATION  
2007 Fiscal Impact Statement**

1. **Patron** Terrie L. Suit

2. **Bill Number** HB 2014

3. **Committee** House Finance

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

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

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

**5. Summary/Purpose:**

This bill would allow an individual income tax subtraction for any amount received by an individual as military retirement income.

This bill would be effective for taxable years beginning on and after January 1, 2008.

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

**6b. Revenue Impact:**

| <i>Fiscal Year</i> | <i>Dollars</i>    | <i>Fund</i> |
|--------------------|-------------------|-------------|
| 2006-07            | \$0               | GF          |
| 2007-08            | \$0               | GF          |
| 2008-09            | (\$236.6 million) | GF          |
| 2009-10            | (\$166.1 million) | GF          |
| 2010-11            | (\$173.6 million) | GF          |
| 2011-12            | (\$181.4 million) | GF          |
| 2012-13            | (\$189.6 million) | GF          |

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

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**8. Fiscal implications:**

Administrative Costs

TAX has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, TAX considers implementation of this bill as "routine," and does not require additional funding.

TAX will provide specific administrative costs on any legislation that is not "routine." Additionally, TAX will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either

house is unusually large, it is possible that additional resources will be required. If so, TAX will identify the costs at that time.

Revenue Impact

This bill would have a negative revenue impact of \$236.6 million for FY 2009, \$166.1 million for FY 2010, \$173.6 million for FY 2011, \$181.4 million for FY 2012, and \$189.6 million for FY 2013.

It is assumed that there would be no impact in FY 2008, because most estimated payments would be based on the previous year's tax liability and few military retirees would be likely to stop any withholding from their military pensions between enactment of this bill and July 1, 2008. Fiscal Year 2009 revenue loss, however, would reflect all of the revenue loss of taxable year 2008 plus half of the revenue loss of TY 2009.

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

Department of Taxation

**10. Technical amendment necessary:** No.

**11. Other comments:**

Other States

At least twenty-seven states offer some form of specific tax benefit to those receiving military retirement income. Out of those states, twelve offer a complete tax exemption. Fifteen states allow the taxpayer to exclude a specified amount of the military retirement income. The remaining state, Ohio, offers a graduated tax credit of up to \$200.

Out of the surrounding states, the District of Columbia, Maryland, North Carolina, and West Virginia all offer exemptions ranging from \$2,000 to \$5,000. In addition, Kentucky does not tax military retirement income up to \$40,200. Any income exceeding that amount is subjected to tax.

Current Law

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 for service in a combat zone or qualified hazardous duty area;
- 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

- All military retirement income for individuals awarded the Congressional Medal of Honor.

### Proposal

This bill would allow an individual income tax subtraction for any amount received by an individual as military retirement income.

Taxpayers who receive military retirement income and who have also been awarded the Congressional Medal of Honor would not be allowed to utilize both subtractions because, under 23 VAC 10-110-142, taxpayers can only subtract an amount to the extent that it has been included in federal adjusted gross income. If an item has already been excluded from Virginia taxable income, it may not be subtracted again.

cc : Secretary of Finance

Date: 1/26/2007 AMS  
HB2014F161