

# DEPARTMENT OF TAXATION

## 2021 Fiscal Impact Statement

1. **Patron** Jennifer A. Kiggans
3. **Committee** Senate Finance and Appropriations
4. **Title** Individual Income Tax; Subtraction for Military Retirement Income

2. **Bill Number** SB 1151  
**House of Origin:**  
  X   **Introduced**  
      **Substitute**  
      **Engrossed**  
  
**Second House:**  
      **In Committee**  
      **Substitute**  
      **Enrolled**

**5. Summary/Purpose:**

This bill would provide an individual income tax subtraction for the military retirement income received for prior service by an honorably discharged veteran of active duty service in the Armed Forces of the United States, the reserve components thereof, or National Guard service members who have been granted veteran status as a result of serving in a combat zone for at least 30 days. The amount of the subtraction would be up to \$2,500 for taxpayers under the age of 65, and \$5,000 for taxpayers age 65 and older. Eligibility for the subtraction would be limited to taxpayers that receive no more than \$82,000 in military retirement income annually.

This bill would be effective for taxable years beginning on and after January 1, 2021.

6. **Budget amendment necessary:** No.
7. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

**7b. Revenue Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2021-22	(\$42.4 million)	GF
2022-23	(\$28.5 million)	GF
2023-24	(\$28.8 million)	GF
2024-25	(\$29.1 million)	GF
2025-26	(\$29.2 million)	GF
2026-27	(\$29.3 million)	GF

**8. Fiscal implications:**

Administrative Costs

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

## Revenue Impact

This bill would have an estimated negative General Fund revenue impact of \$42.4 million in Fiscal Year 2022, \$28.5 million in Fiscal Year 2023, \$28.8 million in Fiscal Year 2024, \$29.1 million in Fiscal Year 2025, \$29.2 million in Fiscal Year 2026, and \$29.3 million in Fiscal Year 2027. According to data from the U.S. Department of Defense, there were approximately 151,400 retired military veterans living in Virginia during 2020. Of those, an estimated 60,832 veterans age 65 and older and 86,003 veterans under age 65 received \$82,000 or less in military retirement income during 2020.

### **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 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.

#### Virginia Study Regarding Exempting Military Retirement Income

During the 2019 Session, the General Assembly enacted House Joint Resolution 674, which required the Department of Veterans Services and the Department to study the feasibility of exempting military retirement income from taxation and publish a report regarding their findings and recommendations. Throughout 2019, the agencies completed this study and published the "Feasibility Study of Exempting Military Retirement Income from Taxation" on November 25, 2019. The report focused on the revenue impact of excluding all military retirement income and several other alternatives for consideration by the General Assembly.

#### Virginia's Age and Disability Tax Preferences

Taxpayers age 65 and older may claim an additional \$800 personal exemption. Certain taxpayers may also qualify for an age deduction of up to \$12,000. For taxpayers born on or before January 1, 1939, the amount of the age deduction is \$12,000. For taxpayers born after January 1, 1939, who have attained the age of 65, the amount of the age deduction is means-tested. Accordingly, the \$12,000 age deduction is reduced dollar-for-dollar for single taxpayers whose income exceeds \$50,000 and for married taxpayers whose combined income exceeds \$75,000.

Taxpayers who are totally and permanently disabled may exclude up to \$20,000 of disability income, as defined under federal law, in calculating Virginia taxable income. Taxpayers may claim either an age deduction or a disability deduction, but not both.

#### Proposed Legislation

This bill would provide an individual income tax subtraction for the military retirement income received for prior service by an honorably discharged veteran of active duty service in the Armed Forces of the United States, the reserve components thereof, or National Guard service members who have been granted veteran status as a result of serving in a combat zone for at least 30 days. The amount of the subtraction would be up to \$2,500 for taxpayers under the age of 65, and \$5,000 for taxpayers age 65 and older. Eligibility for the subtraction would be limited to taxpayers that receive no more than \$82,000 in military retirement income annually. A taxpayer who claims another Virginia subtraction or deduction for military retirement income for such military service would not be permitted to claim this subtraction.

This bill would be effective for taxable years beginning on and after January 1, 2021.

#### Similar Bills

**House Bill 1771** would provide an individual and corporate income tax credit to employers of members of the Virginia National Guard, and to self-employed members of the Virginia National Guard.

cc : Secretary of Finance

Date: 1/16/2021 RWC

