

DEPARTMENT OF TAXATION

2022 Fiscal Impact Statement

1. **Patron** Robert D. Orrock, Sr.

3. **Committee** House Finance

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

2. **Bill Number** HB 233

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 Virginia National Guard pay from \$3,000 to \$5,000. This bill would also expand the military ranks that qualify for the subtraction from O3 and below to O6 and below.

If passed during the 2022 General Assembly Session, this bill would be effective July 1, 2022.

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>
2022-23	(\$699,000)	GF
2023-24	(\$466,000)	GF
2024-25	(\$466,000)	GF
2025-26	(\$466,000)	GF
2026-27	(\$466,000)	GF
2027-28	(\$466,000)	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 Virginia National Guard subtraction from \$3,000 per eligible taxpayer to \$5,000 would have an estimated negative General Fund Revenue impact of \$699,000 in Fiscal Year 2023, and \$466,000 in Fiscal Year 2024 and thereafter.

This estimate is based on data showing that approximately 4,000 individuals have claimed the Virginia National Guard subtraction on an annual basis.

The provisions 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 2023.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes. This bill does not currently specify an effective date. As a result, it would become effective July 1, 2022, which would be in the middle of the taxable year for most taxpayers. To prevent filing difficulties that could result from having a subtraction become effective mid-year, the following technical amendment is suggested:

Page 1, Line 33 after of the Commonwealth of Virginia

Insert: (i) for taxable years beginning before January 1, 2022, not to exceed the amount of income derived from 39 calendar days of such service or \$3,000, whichever amount is less; however, only those persons in the ranks of O3 and below shall be entitled to the deductions specified in this subdivision; and (ii), for taxable years beginning on or after January 1, 2022,

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.

Proposed Legislation

This bill would increase the income tax subtraction for Virginia National Guard pay from \$3,000 to \$5,000. This bill would also expand the military ranks that qualify for the subtraction from O3 and below to O6 and below.

If passed during the 2022 General Assembly Session, this bill would be effective July 1, 2022.

Similar Bills

House Bill 1128, Senate Bill 528, and Senate Bill 586 would provide an individual income tax subtraction for up to \$20,000 in Taxable Year 2021, up to \$30,000 in Taxable Year 2022, and up to \$40,000 in Taxable Year 2023 and each year thereafter in military benefits.

House Bill 1045 would provide an individual income tax subtraction for up to \$10,000 for Taxable year 2022, up to \$20,000 in Taxable year 2023, up to \$30,000 in Taxable year 2024, and up to \$40,000 for Taxable year 2025 and thereafter in annual retirement compensation received by a veteran who is at least 65 years old for service as a member of the United States Armed Forces.

House Bill 1069 would provide an individual income tax subtraction for up to \$40,000 in annual retirement compensation received by a veteran for service as a member of the United States Armed Forces, a reservist in the United States Armed Forces, or a member of the Virginia National Guard.

Senate Bill 381 would provide an individual income tax subtraction of up to \$40,000 for Taxable year 2022 and thereafter, in military retirement income received by a veteran who is at least 55 years old and who was honorably discharged after active duty service in the Armed Forces of the United States, its reserve components, or the National Guard of Virginia or any other state.

cc : Secretary of Finance

Date: 1/19/2022 RWC
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