

DEPARTMENT OF TAXATION

2023 Fiscal Impact Statement

1. **Patron** Paul E. Krizek

3. **Committee** House Finance

4. **Title** Income Tax; Foreign Service Retirement
Benefits Subtraction

2. **Bill Number** HB 1975

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would establish an individual income tax subtraction for certain individuals receiving Foreign Service retirement benefits. The amount of the subtraction would be up to \$5,000 in Taxable Year 2023, up to \$10,000 in Taxable Year 2024, up to \$15,000 in Taxable Year 2025, and up to \$20,000 in Taxable Year 2026 and thereafter.

This bill would be effective for taxable years beginning on and after January 1, 2023.

6. **Budget amendment necessary:** No.

7. **Fiscal Impact Estimates are:** Unknown. (See Line 8.)

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

This bill would have an unknown negative General Fund revenue impact beginning in Fiscal Year 2024. It is unknown how many individuals receiving Foreign Service retirement would be eligible for the subtraction and the amount of subtraction that they would claim. The magnitude of such unknown impact would increase as the amount of the subtraction increases.

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

Department of Taxation

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

11. Other comments:

Proposed Legislation

This bill would establish an individual income tax subtraction for certain individuals receiving Foreign Service retirement benefits. The amount of the subtraction would be up to \$5,000 in Taxable Year 2023, up to \$10,000 in Taxable Year 2024, up to \$15,000 in Taxable Year 2025, and up to \$20,000 in Taxable Year 2026 and thereafter.

"Foreign Service retirement benefits" would be defined as any retirement income received by an individual for employment in the Foreign Service of the United States and as an eligible member of the Foreign Service Retirement and Disability System (22 U.S.C. §§ 4041 through 4069) or the Foreign Service Pension System (22 U.S.C. §§ 4071 through 4071k).

The subtraction would be allowed only for Foreign Service retirement benefits received by an individual age 60 or older.

No subtraction would be allowed if a credit, exemption, subtraction, or deduction is claimed for the same income pursuant to any other provision of Virginia or federal law.

This bill would be effective for taxable years beginning on and after January 1, 2023.

cc : Secretary of Finance

Date: 1/19/2023 JLOF
HB1975F161