

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 6686**  
**BILL NUMBER: HB 1425**

**DATE PREPARED: Jan 1, 1999**  
**BILL AMENDED:**

**SUBJECT:** Tax deduction for military retirement and survivor benefits.

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**FUNDS AFFECTED:  GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

<b>STATE IMPACT</b>	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>
<b>State Revenues</b>		<b>(5,400,000)</b>	<b>(11,300,000)</b>
<b>State Expenditures</b>			
<b>Net Increase (Decrease)</b>		<b>(5,400,000)</b>	<b>(11,300,000)</b>

**Summary of Legislation:** This bill provides an adjusted gross income tax deduction for retirement or survivor's benefits received by an individual for service in an active or reserve component of the armed forces of the United States. The bill also deletes a provision in existing law that provides a partial deduction for these retirement or survivor's benefits.

**Effective Date:** January 1, 2000.

**Explanation of State Expenditures:** This bill provides an income tax deduction for retirement or survivor's benefits received by an individual for service in an active or reserve component of the armed forces of the United States. Currently there is a military service deduction in the amount of \$2,000 for all types of military income. According to the 1996 DOR Individual Income Tax Statistics, approximately 37,000 taxpayers claimed the current deduction for approximately \$72 M in income. This resulted in a revenue loss of \$2.5 M.

This bill would allow all military retirement benefits to be deducted from income beginning January 1, 2000. Assuming a 4% growth rate for military pension income and netting out the current allowable deduction attributable to retirement income only, this new deduction would result in a revenue loss of \$5.4 M in individual income tax revenue in FY 2000 (6 months) and \$11.3 M in FY 2001. This assumes that these

taxpayers would adjust their quarterly payments or withholdings based on the effective date of this new deduction.

Individual Income Tax revenue is deposited in the General Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Counties with a local option income tax will experience a decrease in their local option income tax revenue.

**State Agencies Affected:** Department of Revenue.

**Local Agencies Affected:** Counties with a local option income tax.

**Information Sources:** Department of Revenue, Individual Income Tax Statistics; Mike Dove, (408) 583-2400, Department of Defense, Manpower Data Center.