

# HOUSE BILL No. 1425

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## DIGEST OF INTRODUCED BILL

**Citations Affected:** IC 6-3-1-3.5; IC 6-3-2-4.

**Synopsis:** Tax deduction for military retirement and survivor benefits. 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. Deletes a provision in existing law that provides a partial deduction for these retirement or survivor's benefits.

**Effective:** January 1, 2000.

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**Duncan**

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January 12, 1999, read first time and referred to Committee on Ways and Means.

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Introduced

First Regular Session 111th General Assembly (1999)

PRINTING CODE. Amendments: Whenever an existing statute (or a section of the Indiana Constitution) is being amended, the text of the existing provision will appear in this style type, additions will appear in **this style type**, and deletions will appear in ~~this style type~~.

Additions: Whenever a new statutory provision is being enacted (or a new constitutional provision adopted), the text of the new provision will appear in **this style type**. Also, the word **NEW** will appear in that style type in the introductory clause of each SECTION that adds a new provision to the Indiana Code or the Indiana Constitution.

Conflict reconciliation: Text in a statute in *this style type* or ~~this style type~~ reconciles conflicts between statutes enacted by the 1998 General Assembly.

## HOUSE BILL No. 1425

A BILL FOR AN ACT to amend the Indiana Code concerning taxation.

*Be it enacted by the General Assembly of the State of Indiana:*

- 1 SECTION 1. IC 6-3-1-3.5 IS AMENDED TO READ AS  
2 FOLLOWS [EFFECTIVE JANUARY 1, 2000]: Sec. 3.5. When used  
3 in IC 6-3, the term "adjusted gross income" shall mean the following:  
4 (a) In the case of all individuals, "adjusted gross income" (as  
5 defined in Section 62 of the Internal Revenue Code), modified as  
6 follows:  
7 (1) Subtract income that is exempt from taxation under IC 6-3 by  
8 the Constitution and statutes of the United States.  
9 (2) Add an amount equal to any deduction or deductions allowed  
10 or allowable pursuant to Section 62 of the Internal Revenue Code  
11 for taxes based on or measured by income and levied at the state  
12 level by any state of the United States or for taxes on property  
13 levied by any subdivision of any state of the United States.  
14 (3) Subtract one thousand dollars (\$1,000), or in the case of a  
15 joint return filed by a husband and wife, subtract for each spouse  
16 one thousand dollars (\$1,000).  
17 (4) Subtract one thousand dollars (\$1,000) for:



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- 1 (A) each of the exemptions provided by Section 151(c) of the  
2 Internal Revenue Code;
- 3 (B) each additional amount allowable under Section 63(f) of  
4 the Internal Revenue Code; and
- 5 (C) the spouse of the taxpayer if a separate return is made by  
6 the taxpayer, and if the spouse, for the calendar year in which  
7 the taxable year of the taxpayer begins, has no gross income  
8 and is not the dependent of another taxpayer.
- 9 (5) Subtract five hundred dollars (\$500) for each of the  
10 exemptions allowed under Section 151(c)(1)(B) of the Internal  
11 Revenue Code for taxable years beginning after December 31,  
12 1996, and before January 1, 2001. This amount is in addition to  
13 the amount subtracted under subdivision (4).
- 14 (6) Subtract an amount equal to the lesser of:
- 15 (A) that part of the individual's adjusted gross income (as  
16 defined in Section 62 of the Internal Revenue Code) for that  
17 taxable year that is subject to a tax that is imposed by a  
18 political subdivision of another state and that is imposed on or  
19 measured by income; or
- 20 (B) two thousand dollars (\$2,000).
- 21 (7) Add an amount equal to the total capital gain portion of a  
22 lump sum distribution (as defined in Section 402(e)(4)(D) of the  
23 Internal Revenue Code), if the lump sum distribution is received  
24 by the individual during the taxable year and if the capital gain  
25 portion of the distribution is taxed in the manner provided in  
26 Section 402 of the Internal Revenue Code.
- 27 (8) Subtract any amounts included in federal adjusted gross  
28 income under Internal Revenue Code Section 111 as a recovery  
29 of items previously deducted as an itemized deduction from  
30 adjusted gross income.
- 31 (9) Subtract any amounts included in federal adjusted gross  
32 income under the Internal Revenue Code which amounts were  
33 received by the individual as supplemental railroad retirement  
34 annuities under 45 U.S.C. 231 and which are not deductible under  
35 subdivision (1).
- 36 (10) Add an amount equal to the deduction allowed under Section  
37 221 of the Internal Revenue Code for married couples filing joint  
38 returns if the taxable year began before January 1, 1987.
- 39 (11) Add an amount equal to the interest excluded from federal  
40 gross income by the individual for the taxable year under Section  
41 128 of the Internal Revenue Code, if the taxable year began  
42 before January 1, 1985.

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1 (12) Subtract an amount equal to the amount of federal Social  
 2 Security and Railroad Retirement benefits included in a taxpayer's  
 3 federal gross income by Section 86 of the Internal Revenue Code.

4 (13) In the case of a nonresident taxpayer or a resident taxpayer  
 5 residing in Indiana for a period of less than the taxpayer's entire  
 6 taxable year, the total amount of the deductions allowed pursuant  
 7 to subdivisions (3), (4), (5), and (6) shall be reduced to an amount  
 8 which bears the same ratio to the total as the taxpayer's income  
 9 taxable in Indiana bears to the taxpayer's total income.

10 (14) In the case of an individual who is a recipient of assistance  
 11 under IC 12-10-6-1, IC 12-10-6-2, IC 12-10-6-3, IC 12-15-2-2, or  
 12 IC 12-15-7, subtract an amount equal to that portion of the  
 13 individual's adjusted gross income with respect to which the  
 14 individual is not allowed under federal law to retain an amount to  
 15 pay state and local income taxes.

16 **(15) Subtract an amount equal to the retirement or survivor's**  
 17 **benefits that are:**

18 **(A) received during the taxable year by the individual for**  
 19 **service by the individual or the spouse of the individual in**  
 20 **an active or a reserve component of the armed forces of the**  
 21 **United States, including the army, navy, air force, coast**  
 22 **guard, marine corps, merchant marine, Indiana army**  
 23 **national guard, or Indiana air national guard; and**

24 **(B) included in the individual's federal adjusted gross**  
 25 **income.**

26 (b) In the case of corporations, the same as "taxable income" (as  
 27 defined in Section 63 of the Internal Revenue Code) adjusted as  
 28 follows:

29 (1) Subtract income that is exempt from taxation under IC 6-3 by  
 30 the Constitution and statutes of the United States.

31 (2) Add an amount equal to any deduction or deductions allowed  
 32 or allowable pursuant to Section 170 of the Internal Revenue  
 33 Code.

34 (3) Add an amount equal to any deduction or deductions allowed  
 35 or allowable pursuant to Section 63 of the Internal Revenue Code  
 36 for taxes based on or measured by income and levied at the state  
 37 level by any state of the United States or for taxes on property  
 38 levied by any subdivision of any state of the United States.

39 (4) Subtract an amount equal to the amount included in the  
 40 corporation's taxable income under Section 78 of the Internal  
 41 Revenue Code.

42 (c) In the case of trusts and estates, "taxable income" (as defined for

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1 trusts and estates in Section 641(b) of the Internal Revenue Code)  
2 reduced by income that is exempt from taxation under IC 6-3 by the  
3 Constitution and statutes of the United States.

4 SECTION 2. IC 6-3-2-4 IS AMENDED TO READ AS FOLLOWS  
5 [EFFECTIVE JANUARY 1, 2000]: Sec. 4. Each taxable year, an  
6 individual, or the individual's surviving spouse, is entitled to an  
7 adjusted gross income tax deduction for the first two thousand dollars  
8 (\$2,000) of income, ~~including~~ **excluding** retirement or survivor's  
9 benefits, received during the taxable year by the individual, or the  
10 individual's surviving spouse, for the individual's service in an active  
11 or reserve component of the armed forces of the United States,  
12 including the army, navy, air force, coast guard, marine corps,  
13 merchant marine, Indiana army national guard, or Indiana air national  
14 guard. ~~However, a person who is less than sixty (60) years of age on the~~  
15 ~~last day of the person's taxable year, is not, for that taxable year,~~  
16 ~~entitled to a deduction under this section for retirement or survivor's~~  
17 ~~benefits.~~

18 SECTION 3. [EFFECTIVE JANUARY 1, 2000] **IC 6-3-1-3.5 and**  
19 **IC 6-3-2-4, both as amended by this act, apply only to taxable years**  
20 **beginning after December 31, 1999.**

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