LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 6176
BILL NUMBER: HB 1047

DATE PREPARED: Nov 14, 1999
BILL AMENDED:

SUBJECT: Tax exemption for retirement benefits.

FISCAL ANALYST: Diane Powers
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FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

STATE IMPACT	FY 2000	FY 2001	FY 2002
State Revenues		**(128,000,000)**	**(264,100,000)**
State Expenditures			
Net Increase (Decrease)		**(128,000,000)**	**(264,100,000)**

Summary of Legislation: This bill provides a 100% Adjusted Gross Income Tax deduction for pension and annuity income received by an individual and for individual retirement arrangement distributions received by an individual who is at least 59 ½ years of age. The bill makes conforming amendments to existing provisions that provide certain partial deductions for retirement income. It also reconciles conflicts between statutes enacted by the 1999 General Assembly.

Effective Date: January 1, 2001.

Explanation of State Expenditures: The Department of State Revenue will have administrative expenses to revise tax forms, instructions and computer programming to accommodate this deduction. These expenses will be covered under its existing budget.

Explanation of State Revenues: *If all retirement income and taxable IRA distributions were exempt from Adjusted Gross Income Tax, the state would lose approximately $128 M in revenue for FY 2001 (six months) and $264 M in FY 2002.*

In 1997, there was $4.9 B in taxable pension and annuity income reported on the Indiana federal income tax returns. This income has been growing at approximately 7% annually over the last seven years. Assuming an effective date of January 1, 2001, it is estimated that Indiana residents will have approximately $6.4 B in pension and annuity income in CY 2001.

There was also $1.1 B in taxable IRA distributions reported on Indiana federal tax returns for 1997. Assuming a 2% growth rate for this income and assuming that all of this income was claimed by individuals over the age of 59 ½ , it is estimated that there will be approximately $1.2 B of IRA taxable income in CY 2001.

The bill also eliminates the current $2,000 deduction for military *retirement* income and repeals the civil service annuity deduction. This income is already included in the total pension and annuity income reported on the federal tax returns. It is estimated that approximately $37.3 M in military retirement income and $8.1 M of civil service annuity income are currently being deducted on the Indiana tax returns.

Taking into account the current deductions and the new pension, annuity, and IRA income deductions, this income tax exemption would result in a loss of approximately $128 M in Adjusted Gross Income Tax revenue in FY 2001 (six months) and $264.1 M in FY 2002. The revenue loss would continue to grow annually. The six month revenue impact in FY 2001 assumes that taxpayers will change their quarterly payments or withholdings to adjust for these new deductions.

Individual Adjusted Gross Income Tax is deposited in the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties with a local option income tax would experience an indeterminable decrease in revenue collections due to the deduction of retirement income.

State Agencies Affected: Department of State Revenue.

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

Information Sources: Internal Revenue Service, Statistics of Income Bulletin, Spring 1998; Indiana Department of State Revenue, Individual Income Tax Statistics.