

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

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6519

BILL NUMBER: HB 1181

DATE PREPARED: Dec 21, 1999

BILL AMENDED:

SUBJECT: Military Service Income Tax Deductions.

FISCAL ANALYST: Diane Powers

PHONE NUMBER: 232-9853

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

STATE IMPACT	FY 2000	FY 2001	FY 2002
State Revenues			(10,900,000)
State Expenditures			
Net Increase (Decrease)			(10,900,000)

Summary of Legislation: (A) This bill provides that a resident of Indiana who is serving outside Indiana on active duty in the armed forces of the United States is entitled to an adjusted gross income tax deduction equal to the entire amount of the income received during the taxable year by the individual for the active service. (B) The bill also provides that an individual or the individual's surviving spouse who is not entitled to this active service deduction is entitled to an adjusted gross income tax deduction for the first \$6,000 of income received for military service. (Current law provides a \$2,000 deduction.)

Effective Date: January 1, 2001.

Explanation of State Expenditures: The Department of State Revenue (DOR) will have some administrative expenses to revise tax forms, instructions and computer programs to incorporate these income tax deductions. These expenses can be covered in the Department's existing budget.

Explanation of State Revenues: *The additional revenue loss from these income tax deductions is estimated to be \$10.9 M in FY 2002.*

This bill provides two income tax deductions for individuals with military service income. (A) The first deduction is for an Indiana resident who is serving in active duty outside the state. The bill provides an

income tax deduction for the entire amount of income earned for military service. (B) The bill also increases the current military service deduction for all other taxpayers who receive military service income and are not entitled to the first deduction. The current deduction is \$2,000 and is increased to \$6,000. Both deductions are effective for tax years beginning January 1, 2001.

(A) According to the Department of Defense there are currently 14,777 Indiana residents who are serving in active duty outside the state of Indiana. It is estimated that the complete exemption of their income, net the current deduction, would reduce Individual Income Tax revenue by \$8.2 M in FY 2002.

(B) Based on the 1997 DOR Individual Income Tax Statistics, approximately 35,200 taxpayers claimed the current deduction. These individuals deducted approximately \$69 M in adjusted gross income which resulted in a revenue loss of \$2.3 M in FY 98. The additional \$4,000 deduction for all other taxpayers who have military service income but are not entitled to the first deduction is expected to reduce Individual Income Tax revenue by approximately \$2.7 M for FY 2002 and years after.

Individual Adjusted Gross 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 minimal reduction in their local option income tax revenue.

State Agencies Affected: Department of State Revenue.

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

Information Sources: Indiana Department of State Revenue; Department of Defense- Manpower Data Center, Mike Dove, (831) 583-2400.