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FISCAL IMPACT STATEMENT

LS 7678

BILL NUMBER: SB 480

NOTE PREPARED: Feb 15, 2007

BILL AMENDED: Feb 15, 2007

SUBJECT: Veterans' Benefits.

FIRST AUTHOR: Sen. Wyss

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) The bill exempts active duty military pay earned by members of the National Guard and Reserves from the individual income tax. It increases the military pay income tax deduction from \$2,000 to \$5,000. It also provides that a taxpayer may not claim both the new exemption and the existing deduction for military income.

The bill specifies that active duty military personnel stationed in Indiana and their dependents are eligible for resident tuition rates at state educational institutions. It expands the high school diploma program for eligible veterans to include veterans of the Korean and Vietnam conflicts. It also authorizes the: (1) Advisory Board of the Division of Professional Standards of the Department of Education; and (2) various professional licensing boards; to adopt rules to expedite the licensure of individuals whose spouses are stationed on active duty in Indiana.

Effective Date: July 1, 2007; January 1, 2008.

Summary of Net State Impact: (Revised) The bill is estimated to reduce income tax revenue to the state General Fund by \$4.3 M to \$4.7 M in FY 2009, with a reduction in income tax revenue to the Property Tax Replacement Fund by about \$700,000 to \$800,000 in FY 2009.

Explanation of State Expenditures: (Revised) *High School Diplomas for Veterans from the Korean and Vietnam Conflicts:* The bill modifies the definition of eligible veteran to include persons who fought in the Korean and Vietnam conflicts. Under current law, eligible veterans are entitled to an honorary high school diploma. Under the bill, the Department of Education (DOE) would incur expenditures to produce additional diplomas for Korean and Vietnam veterans, and the Indiana Department of Veterans Affairs (IDVA) would

incur additional administrative responsibilities to verify the eligibility of veterans from the Korean and Vietnam conflicts. The fiscal impact to state expenditures is currently indeterminable but expected to be minimal.

Background Information: Projections from the United States Department of Veterans' Affairs indicate that approximately 230,000 veterans from the Korean and Vietnam conflicts currently live in Indiana. There could be additional veterans living out of state that left an Indiana high school to enter the Vietnam or Korean conflicts that may qualify. There may also be veterans living in Indiana that attended an out-of-state high school.

During the 2002 session, the Indiana legislature passed P.L. 127-2002. Since that time, a total of 276 honorary diplomas were awarded to World War I and World War II veterans that dropped out of high school in order to enlist in the armed forces of the United States. Of the 276 diplomas, the DOE has awarded 47 diplomas at the state level, versus 229 diplomas awarded at the local school district level. The DOE reports that total costs to produce a diploma are dependent on the type of diploma created, and are minimal.

Tuition Exemption: Military personnel stationed in Indiana would be able to pay the resident tuition and fees instead of the out-of-state fees for themselves and for their dependents. The provision would reduce the amount of tuition the university receives for these students, but the overall impact on universities is probably minor. According to the Defense Manpower Data Center there were 869 active duty members of the U.S. armed forces stationed in Indiana as of January 11, 2006. (Note: The totals in 2004 and 2005 were reportedly 994 and 1,014, respectively.) The number of these active duty service personnel who currently attend a state university, or have a dependent, or multiple dependents, that attend; or who may in the future, is unknown. Out-of-state fees range from about \$2,500 to \$19,000 more per year than resident fees.

Adoption of Rules: The bill allows: the Division of Professional Standards within the Department of Education (DOE), a Health Professions Standards Board (as defined in IC 25-1-9-1), and a Professional Standards Licensing Board (as defined in IC 25-1-11-1); to adopt rules to establish procedures to expedite the issuance, renewal, or reinstatement of a license, certificate, registration, or permit, of a person whose spouse served on active duty and is assigned to a duty station in Indiana. All entities should be able to do so within their existing level of resources.

Military Income Deduction: The Department of State Revenue (DOR) will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the deduction changes relating to certain active duty military pay and military service income in general. The DOR's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: *Military Income Deduction:* The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers receiving military service income. The revenue loss from the bill could potentially total \$5.0 M to \$5.5 M in FY 2009, with the revenue loss increasing by about 1.5% annually thereafter.

Background Information: The bill provides: (1) a full exemption for active duty pay earned by Armed Forces Reserve and National Guard members in lieu of the current \$2,000 exemption.; and (2) increases from \$2,000 to \$5,000 the deduction for all other military service income, including retirement. (Note: Currently, combat pay is excluded from federal gross income and, as a result, is excluded from state AGI.) Since the bill is effective beginning in tax year 2008, the fiscal impact would begin in FY 2009. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund,

and 14% of the revenue is deposited in the Property Tax Replacement Fund.

Under current statute, a taxpayer may deduct up to \$2,000 in military service income from state AGI. This includes military retirement provided the recipient is 60 years old or older. State tax data indicates that 36,530 taxpayers claimed the deduction for military service pay and retirement benefits in tax year 2004, deducting approximately \$72.5 M in military pay and retirement benefits. This amount resulted in a revenue loss of about \$2.5 M. Based on U.S. Department of Defense (DOD) military census and pay rate data, it is estimated that about 35% of the annual total amount deducted under the current \$2,000 deduction is attributable to Indiana taxpayers earning active duty pay during the year, with the remainder attributable to National Guard or reserve pay and retirement benefits. The changes made by the bill would increase the total annual active duty pay deducted from AGI by about \$146.0 M to \$160.0 M in tax year 2008, with a tax impact of about \$5.0 M to \$5.5 M.

Explanation of Local Expenditures: *High School Diplomas for Veterans from the Korean and Vietnam Conflicts: See Explanation of State Expenditures.*

Explanation of Local Revenues: *Military Income Deduction:* Because the proposed increase in the military service income deduction would decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

State Agencies Affected: Indiana Department of Veterans' Affairs; Department of Education; State Universities and Colleges; Health Professions Standards Boards; Professional Standards Licensing Boards; Department of State Revenue.

Local Agencies Affected: School corporations. Counties with local option income taxes.

Information Sources: Tom Applegate, Indiana Department of Veterans' Affairs; <http://usmilitary.about.com/library/milinfo/statefacts/blin.htm>; Jeff Zaring, Department of Education; OFMA Income Tax databases, 1996-2004; Deborah K. Williamson, U.S. Department of Defense, Defense Manpower Data Center, (831) 583-2400; Matthew Torres, U. S. Department of Defense, Defense Manpower Data Center (831) 583-2500.

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