

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6017

BILL NUMBER: HB 1171

NOTE PREPARED: Nov 20, 2008

BILL AMENDED:

SUBJECT: Taxation of Military Pension Benefits or Salary.

FIRST AUTHOR: Rep. Ruppel

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill phases in over six years a 100% individual income tax deduction for all military pay, including retirement and survivor's benefits.

Effective Date: January 1, 2009 (retroactive).

Explanation of State Expenditures: The Department of State Revenue will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the tax deduction phase-in. The Department's current level of resources should be sufficient to implement this change.

Explanation of State Revenues: *Summary* - The bill would reduce Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers who receive military pay or retirement benefits, including surviving spouses. This bill also removes the age requirement of 60 for retirement and survivor's benefits. The deduction phase-in and potential revenue loss due to the increase in the deduction is summarized in the table below.

The deduction increase begins in tax year 2010, thus, the fiscal impact of the phase-in will commence in FY2011. Once the full deduction is phased in, the revenue loss could increase by 2% to 2.5% per year. All revenue from the AGI Tax on individuals is deposited in the state General Fund.

Tax Year	Fiscal Year	Maximum Deduction	Additional Revenue Loss
2010	2011	Greater of \$5,000 or 50% of taxpayer's military income	\$8.3 M - \$8.9 M
2011	2012	Greater of \$5,000 or 50% of taxpayer's military income	\$8.4 M - \$9.1 M
2012	2013	Greater of \$5,000 or 75% of taxpayer's military income	\$16.9 M - \$18.4 M
2013	2014	Greater of \$5,000 or 75% of taxpayer's military income	\$17.3 M - \$18.9 M
2014	2015	100% of taxpayer's military income	\$26.2 M - \$28.7 M

Background Information - In 2006, 38,440 taxpayer's claimed deductions totaling \$76.2 M for eligible military income. The maximum deduction at that time was \$2,000. P.L. 144-2007 increased the maximum deduction from \$2,000 to \$5,000, and provided a full deduction for active duty pay to National Guard and Reserve personnel who are mobilized. These changes went into effect for tax years beginning in 2008. Based on these changes, the revenue loss from the current deduction limits is estimated to be approximately \$8.4 M to \$9.1 M in FY 2011. [The revenue losses attributable to this bill are provided in the table above and are in addition to the revenue losses which are occurring under the current deduction limits.]

Because the estimates provided above are based upon average pension benefits or salary, the actual revenue loss during the transition years from the \$5,000 deduction to the full deduction may be less than projected to the extent that some personnel receive less than the average.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the increase in the deduction would serve to decrease taxable income, counties imposing local option income taxes could potentially experience a significant decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

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