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INFORMATION BULLETIN #6

INCOME TAX

DECEMBER 2017

Effective Date: January 1, 2018

(Replaces Bulletin #6 dated July 2015)

SUBJECT: Civil Service Annuity Adjustment and Military Retirement or Survivor's Benefit Deduction

REFERENCES: IC 6-3-2-3.7; IC 6-3-2-4

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SUMMARY OF CHANGES
Aside from nonsubstantive, technical changes, this bulletin is changed to reflect increased amounts for the military retirement and survivor's benefits exemption. In addition, this bulletin reflects that the age limitation previously in place for qualification for the exemption has been eliminated and that this exemption is in addition to the exemption for certain military service income.

CIVIL SERVICE ANNUITY ADJUSTMENT

IC 6-3-2-3.7 allows a deduction for a portion of a federal civil service annuity. To qualify for the civil service annuity adjustment, the taxpayer must be at least 62 years old at the close of the tax year and have received a civil service annuity included in the taxpayer's adjusted gross income while a resident of Indiana. The individual's surviving spouse also qualifies for the deduction but does not have to be age 62 or older to qualify.

The allowable adjustment is equal to the federal civil service annuity received up to a maximum of $8,000 for 2015 and $16,000 for 2016 and thereafter, minus the total amount of Social Security and tier 1 and tier 2 railroad retirement benefits received while a resident of Indiana.

Example: During 2017 a full-year Indiana resident who was 66 years old received a civil service annuity of $17,000. This person also received Social Security retirement benefits of $1,300. The taxpayer received no other income during the year.

The taxpayer would be entitled to a civil service annuity adjustment of $14,700, computed by subtracting the $1,300 Social Security retirement benefits from the first $16,000 of civil service annuity received.

MILITARY SERVICE DEDUCTION FOR MILITARY RETIREMENT OR SURVIVOR'S BENEFITS

IC 6-3-2-4 allows a deduction for military retirement pay or survivor's benefits received as a result of the individual's active or reserve service in the armed services.

For taxable years beginning before January 1, 2018, to qualify for the military service deduction for military retirement or survivor's benefits, the taxpayer or surviving spouse must be at least 60 years of age on the last day of the tax year and have received military retirement or survivor's benefits while a resident of Indiana. The allowable adjustment is the amount of military or survivor's benefits received while a resident of Indiana and included in adjusted gross income. The maximum allowable deduction is $5,000.

For taxable years beginning after December 31, 2017, the maximum allowable deduction for military retirement or survivor's benefits is increased to $6,250. In addition, the minimum age requirement for qualification has been eliminated. This deduction is in addition to the $5,000 deduction for which taxpayers are otherwise entitled for certain military service income under IC 6-3-2-4(a)(1).

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Commissioner