

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

301 State House
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FISCAL IMPACT STATEMENT

LS 6020
BILL NUMBER: HB 1029

DATE PREPARED: Nov 10, 1999
BILL AMENDED:

SUBJECT: Tax deduction for federal retirement benefits.

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FUNDS AFFECTED: **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

STATE IMPACT	FY 2000	FY 2001	FY 2002
State Revenues		(10,100,000)	(20,500,000)
State Expenditures			
Net Increase (Decrease)		(10,100,000)	(20,500,000)

Summary of Legislation: This bill provides an adjusted gross income tax deduction for the entire taxable portion of amounts received by an individual from a federal civil service annuity. The bill repeals a provision that allows a deduction of up to \$2,000 received from a federal civil service annuity. It also reconciles conflicts between statutes enacted by the 1999 General Assembly (shown in italicized type).

Effective Date: January 1, 2001.

Explanation of State Expenditures: The Department of Revenue will have some additional administrative expenses related to changing tax forms, instructions and computer programs. These expenses can be covered under their existing budget.

Explanation of State Revenues: A complete exemption of civil service annuity income from Individual Adjusted Gross Income Tax will result in a revenue loss of \$10.1 M in FY 2001 and \$20.5 M in FY 2002.

Currently there is a civil service deduction (IC 6-3-2-3.7) which is equal to the remainder of \$2,000 minus the total amount of social security benefits and railroad retirement benefits received by the individual. An individual must be at least 62 years of age. This bill repeals this deduction and allows any taxpayer who receives a civil service annuity to deduct the entire amount of the annuity before calculating their adjusted

gross income.

According to the Federal Office of Personnel Management, there were approximately 25,000 federal retirees and 8,900 federal surviving spouses who resided in Indiana in 1999. They received approximately \$557 M in civil service annuity income. Based on the 1997 Indiana Department of Revenue Income Tax Statistics, approximately 4,600 taxpayers were able to deduct \$8.1 M of annuity income. This resulted in a revenue loss of approximately \$275,400 for FY 98.

The new deduction is effective for tax years beginning January 1, 2001. The estimated revenue impact assumes an annual 3% growth rate for civil service annuity income and nets out the current allowable deduction. This new deduction will result in a revenue loss of \$10.1 M in individual income tax revenue in FY 2001 (6 months) and \$20.5 M in FY 2002. This assumes that all eligible taxpayers will adjust their quarterly payments or withholdings effective January 1, 2001.

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 decrease in their local option income tax revenue.

State Agencies Affected: Department of Revenue.

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

Information Sources: Ed Callicott, Federal Office of Personnel Management (202)606-0650; Indiana Department of Revenue, Individual Income Tax Statistics.