

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6018

BILL NUMBER: HB 1601

NOTE PREPARED: Jan 14, 2007

BILL AMENDED:

SUBJECT: Taxation of Railroad Benefits.

FIRST AUTHOR: Rep. Cherry

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides an Adjusted Gross Income Tax exemption for railroad retirement benefits received by a spouse or survivor.

Effective Date: January 1, 2007 (retroactive).

Explanation of State Expenditures: The DOR could incur additional expenses to revise tax forms, instructions, and computer programs to track with the changes in the bill. The Department's current level of resources should be sufficient to implement this change.

Explanation of State Revenues: *Summary:* The bill could potentially have a minimal impact on Adjusted Gross Income (AGI) Tax revenue from individual taxpayers that receive railroad retirement benefits. Current statute provides a deduction from AGI for amounts received as supplemental railroad retirement annuities that were not excluded from the taxpayer's Federal AGI. The bill specifies that the deduction applies to annuities received by the retiree, the retiree's spouse, or a survivor.

Background: Currently, the Federal income tax treatment of tier 1 railroad retirement benefits is the same as for social security benefits. Tier 1 railroad retirement benefits may be included in a taxpayer's Federal AGI. The includible amount is the lesser of one-half of the annual benefits received or one-half of the excess of the taxpayer's "provisional income" over a specified base amount. "Provisional income" is basically the taxpayer's AGI plus one-half of their tier 1 railroad retirement benefits. The base amount is \$32,000 for joint filers and \$25,000 for individual filers. Tier 2 railroad retirement benefits are taxed under the Federal income tax in the same manner as benefits paid under private employer retirement plans.

Explanation of Local Expenditures: The bill could result in a minimal reduction in taxable income. As a result, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an very minimal decrease in revenue from these taxes.

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources:

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