

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

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6222

BILL NUMBER: HB 1024

NOTE PREPARED: Nov 30, 2009

BILL AMENDED:

SUBJECT: Taxation of Civil Service Annuities.

FIRST AUTHOR: Rep. Robertson

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides a 100% income tax deduction, beginning in 2014, for federal civil service annuity income received by an individual or the individual's surviving spouse. It phases in the deduction from 2010 through 2013.

Effective Date: January 1, 2010 (retroactive).

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the phase-in of the 100% income tax deduction for civil service annuities. The DOR's current level of resources should be sufficient to implement the change.

Explanation of State Revenues: *Summary* - The bill would reduce Adjusted Gross Income (AGI) Tax liabilities of certain individual taxpayers who receive federal civil service retirement benefits, including surviving spouses. The provisions of this bill would not require the annuity to be offset by social security and railroad retirement benefits, as is required now. The bill phases in a 100% income tax deduction over five years. In years 2010 through 2013 the deduction is equal to the greater of a percentage of the annuity (20%, 40%, 60%, and 80%, respectively) or \$12,000. The potential revenue losses due to the increase in the deduction are summarized in the table below, and are in addition to the revenue losses which are occurring under the current deduction limits.

Tax Year	Fiscal Year	Deduction Amount	Annual Revenue Loss
2010	2011	Greater of 20% of the annuity payment or \$12,000	\$13.2 M
2011	2012	Greater of 40% of the annuity payment or \$12,000	\$13.2 M
2012	2013	Greater of 60% of the annuity payment or \$12,000	\$18.8 M
2013	2014	Greater of 80% of the annuity payment or \$12,000	\$25.2 M
2014	2015	100% of the annuity payment	\$32.5 M

Background Information - Under current statute, taxpayers may deduct up to \$2,000 in civil service annuity income. The deduction is equal to the difference between \$2,000 and the total amount of social security and railroad retirement benefits received by the taxpayer. Based on the current deduction limits, revenue loss for FY 2011 is estimated to be approximately \$216,000. Data from the U.S. Office of Personnel Management indicates that there were about 24,000 federal retirees and about 8,000 surviving spouses of federal retirees residing in Indiana in 2008. On average, that number has decreased 0.3% over the past 10 years. These individuals received approximately \$799 M in civil service annuity payments during 2008, with the average annuity to retirees equal to about \$27,000. The average survivor's benefit was about \$15,000. The total payments to retirees and their spouses in Indiana increased, on average, 4% over the past 10 years.

The bill increases the deduction beginning in tax year 2010, thus, the fiscal impact of the phase-in will commence in FY 2011. Revenue collected from the AGI tax on individuals is deposited in the state General Fund.

Explanation of Local Expenditures:

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

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: Danny Cieslicki, Federal Office of Personnel Management, 202-606-0067.

Fiscal Analyst: Jessica Harmon, 317-232-9854.