

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6434
BILL NUMBER: SB 264

NOTE PREPARED: Dec 26, 2012
BILL AMENDED:

SUBJECT: Tax Exemption for Military Pension Income.

FIRST AUTHOR: Sen. Lanane
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill exempts military retirement pension income from the adjusted gross income tax.

Effective Date: January 1, 2014.

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 change in the current deduction for military pension income. The DOR's current level of resources should be sufficient to implement this change.

Explanation of State Revenues: *Summary* - The bill expands the current adjusted gross income (AGI) deduction for military pension income beginning in tax year 2014. The fiscal impact of these changes would begin in FY 2015. The estimated revenue loss in FY 2015 and FY 2016 from each change is reported in the table below. The revenue loss could potentially increase by 3% to 4% annually thereafter.

Fiscal Year	Revenue Loss (in millions)		
	Retirees 60 and over	Retirees Under 60	Total
2015	\$9.5	\$7.9	\$17.4
2016	\$9.9	\$8.2	\$18.1

The bill (1) increases the current deduction for military pension income of individuals who are at least 60 years old from \$5,000 to a full deduction; and (2) extends the full deduction for military pension income to individuals who are under 60 years of age. Under current statute, the military pension deduction does not apply to individuals under 60 years of age.

This estimate is based on pension and retiree count information from 2005 to 2012 from the U.S. Department of Defense (DOD), Defense Manpower Data Center. These data provide counts of military retirees residing in Indiana and annualized taxable retirement pay to those individuals. The estimates assume that the military retirees who are at least 60 years old are claiming the current military pension deduction of up to \$5,000.

Background Information - Current statute provides an AGI deduction for the first \$5,000 of military pension income or survivor's benefits received by an individual who is at least 60 years old. In 2012, the DOD reported that 25,666 military retirees reported that Indiana was their state of legal residence. These individuals received an estimated \$551.3 M in military pension income during the year.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the expansion of the military pension income deduction will decrease taxable income, counties imposing local option income taxes could potentially experience a decrease in revenue from these taxes. Based on the current average LOIT rate of about 1.45%, the estimated revenue loss in FY 2015 and FY 2016 from each change is reported in the table below. The revenue loss could potentially increase by 3% to 4% annually thereafter.

Fiscal Year	Revenue Loss (in millions)		
	Retirees 60 and over	Retirees Under 60	Total
2015	\$4.0	\$3.4	\$7.4
2016	\$4.2	\$3.5	\$7.7

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: U.S. Department of Defense, Defense Manpower Data Center; OFMA Income Tax Return databases.

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