



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number:	H. 3352	Introduced on January 12, 2021
Author:	Gilliam	
Subject:	Military retirement income, deductions	
Requestor:	House Ways and Means	
RFA Analyst(s):	Jolliff	
Impact Date:	October 1, 2021	

Fiscal Impact Summary

This bill amends the current military retirement income tax deductions to allow taxpayers to exclude all military retirement income from state income taxes beginning in tax year 2021. We anticipate that the Department of Revenue (DOR) will implement the changes with existing staff and resources. Therefore, the bill is not expected to impact expenditures for the agency.

This bill will reduce General Fund individual income tax revenue by \$9,064,000 beginning in FY 2021-22. Depending upon the timing of the bill's enactment, the impact may be delayed if taxpayers have already filed their 2021 tax returns and have to file an amended return in FY 2022-23. In that event, the income tax revenue reduction for tax year 2021 would shift from FY 2021-22 to FY 2022-23, and the revenue impact would be double for one year.

Explanation of Fiscal Impact

Introduced on January 12, 2021

State Expenditure

This bill would amend the current military retirement income tax deductions to allow a deduction for all military retirement income beginning in tax year 2021. We anticipate that DOR will implement the changes with existing staff and resources. Therefore, the bill is not expected to impact expenditures for the agency.

State Revenue

This bill amends Section 12-6-1171 to allow taxpayers to exclude all military retirement income from taxable income beginning in tax year 2021. Currently, Section 12-6-1171 provides an individual income tax deduction of up to \$17,500 of earned income for taxpayers under age 65 that receive military retirement income for tax year 2021. The deduction is equal to the amount of military retirement income, not to exceed \$17,500. When a taxpayer reaches age 65, the taxpayer may deduct up to \$30,000 of military retirement income. Based upon the latest data provided by the SC Department of Veterans Affairs from the Department of Defense, Office of the Actuary as of September 2020, we estimate the revenue impact for these current deductions totals \$20,895,000 for FY 2021-22.

Since Section 12-6-1171 currently allows different amounts of retirement income deductions by taxpayers depending on their age, we use Department of Defense data to separate taxpayers with military retirement income into two categories: under age 65 and age 65 and older.

The first row of the table below reports the estimated revenue impact of the current deduction and a full deduction of all military retirement income for taxpayers under age 65 in tax year 2021. We estimate that the individual income tax revenue impact of a full military retirement income deduction in FY 2021-22 will total \$18,300,000 for the estimated 17,893 taxpayers under age 65. The BEA forecast for individual income tax revenue includes the current deduction, estimated to be \$11,072,000 for FY 2021-22. Therefore, the proposed complete deduction of the remaining military retirement income for taxpayers under age 65 will reduce individual income tax revenue by an additional \$7,228,000 in FY 2021-22.

The second row of the table below reports the estimated revenue impact of the current deduction and a full deduction of all military retirement income for taxpayers age 65 and older. We estimate that the individual income tax revenue impact of the fully implemented military retirement income deduction in FY 2021-22 will total \$11,659,000 for the estimated 19,607 eligible taxpayers. For these taxpayers age 65 and older, the BEA forecast includes the reduction in the individual income tax revenue resulting from the current deduction, estimated to be \$9,823,000 for FY 2021-22. Therefore, the proposed complete deduction of the remaining military retirement for taxpayers age 65 and older will reduce individual income tax revenue by an additional \$1,836,000 in FY 2021-22.

Combining the revenue impacts of the retirement income tax deduction by age, this bill will reduce General Fund individual income tax revenue by an additional \$9,064,000 beginning in FY 2021-22. Depending upon the timing of the bill's enactment, the impact may be delayed if taxpayers have already filed their 2021 tax returns and have to file an amended return in FY 2022-23. In that event, the income tax revenue reduction for tax year 2021 would shift from FY 2021-22 to FY 2022-23, and the revenue impact would be double for one year.

Table 1. Estimated Number and Tax Revenue Reduction for Military Retirees, FY 2021-22

Age of Military Retirees	Total Estimated Number of Active Duty Military Retirees	Total Tax Revenue Reduction from Full Deduction	Total Revenue Reduction from Act 272 of 2016	Additional Revenue Reduction from Full Military Retirement Deduction
Under Age 65	17,893	\$18,300,000	\$11,072,000	\$7,228,000
Age 65 and Older	19,607	\$11,659,000	\$9,823,000	\$1,836,000
Total	37,500	\$29,959,000	\$20,895,000	\$9,064,000

Local Expenditure and Local Revenue

N/A

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