

Statement of Estimated State Revenue Impact

Date: April 10, 2014 (As amended April 8, 2014 by the House Ways and Means Committee)
Bill Number: H.B. 3112
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Committee Requesting Impact: House of Representatives

Bill Summary

A bill to amend Section 12-6-1140, as amended, of the Code of Laws of South Carolina, 1976, relating to deductions from South Carolina taxable income of individuals for purposes of the South Carolina Income Tax Act, so as to allow the deduction of retirement benefits attributable to service on active duty in the armed forces of the United States; and to amend Section 12-6-1170, as amended, relating to the retirement income deduction, so as to conform this deduction to the military retirement deduction allowed by this Act.

REVENUE IMPACT ^{1'}

This bill, as amended, would reduce General Fund individual income tax revenue by an estimated \$7,463,256 in FY2014-15, an estimated \$15,396,022 in FY2015-16, and an estimated \$23,815,685 in FY2016-17, when the income tax deduction is fully phased in place.

Explanation of Amendment (April 8, 2014) – By the House Ways & Means Committee

This amendment would strike all after the enacting words and insert language to amend Section 12-6-1140 to allow eligible taxpayers to deduct a portion of military retirement benefits attributable to service on active duty in the armed forces of the United States from state income tax liability. This amendment would change the effective dates of the proposed legislation. The state individual income tax deduction percentage would be as follows: a 33.33% deduction in taxable year 2014 (FY2015), a 66.66% deduction in taxable year 2015 (FY2016), and a 100% deduction in taxable year 2016 (FY2017), and each taxable year thereafter. This bill would also amend Section 12-6-1170(A)(2) to amend the definition of "retirement income" that is subject to the \$3,000 / \$15,000 exclusion to not include active duty military retirement income for taxable years beginning after 2015.

In total, exempting the military benefits attributable to active duty service in the military would reduce General Fund individual income tax revenue by an estimated \$22,392,008 in FY2014-15. After applying a deduction percentage of 33.33% in tax year 2014 this would reduce General Fund individual income tax revenue an estimated \$7,463,256 in FY2014-15. Also, after applying a deduction percentage of 66.66% in tax year 2015, this would reduce General Fund individual income tax revenue an estimated \$15,396,022 in FY2015-16. Finally, after applying a deduction percentage of 100% in tax year 2016, this would reduce General Fund individual income tax revenue an estimated \$23,815,685 in FY2016-17, when the income tax deduction is fully phased in place. This act takes effect upon approval by the Governor and applies for taxable years beginning after 2013.

Explanation of Amendment (May 15, 2013) – By the Sales & Income Tax Subcommittee

This amendment would strike all after the enacting words and insert language to amend Section 12-6-1140 to allow eligible taxpayers to deduct a portion of military retirement benefits attributable to service on active duty in the armed forces of the United States from state income tax liability. The state individual income tax deduction percentage would be as follows: a 33.33% deduction in taxable year 2013 (FY2014), a 66.66% deduction in taxable year 2014 (FY2015), and a 100% deduction in taxable year 2015 (FY2016). This bill would also amend Section 12-6-1170(A)(2) to amend the definition of "retirement income" that is subject to the \$3,000 / \$15,000 exclusion to not include active duty military retirement income for taxable years beginning after 2014.

In total, exempting the military benefits attributable to active duty service in the military would reduce

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General Fund individual income tax revenue by an estimated \$21,015,738 in FY2013-14. After applying a deduction percentage of 33.33% in tax year 2013 would reduce General Fund individual income tax revenue an estimated \$7,004,545 in FY2013-14. Also, after applying a deduction percentage of 66.66% in tax year 2014, this would reduce General Fund individual income tax revenue an estimated \$14,447,576 in FY2014-15. Finally, after applying a deduction percentage of 100% in tax year 2015, this would reduce General Fund individual income tax revenue an estimated \$22,351,912 in FY2015-16. This act takes effect upon approval by the Governor and applies for taxable years beginning after 2012.

Explanation of Bill filed January 8, 2013

This bill would amend Section 12-6-1140 to allow eligible taxpayers to deduct all military retirement benefits attributable to service on active duty in the armed forces of the United States from state income tax liability. This bill would also amend Section 12-6-1170(A)(2) to amend the definition of "retirement income" that is subject to the \$3,000 / \$15,000 exclusion to not include active duty military retirement income for taxable years beginning after 2015.

Based on the latest data from the United States Department of Defense, there are currently 56,486 military retirees in South Carolina receiving \$1,266,108,000 in annual military retirement benefits. This equates to an average annual retirement benefit of \$22,415 for each military retiree in the state. Of this amount, there are currently 26,235 military retirees over 65 years of age in the state receiving an average military retirement benefit of \$24,048 and 30,251 military retirees under 65 years of age in the state receiving an average military retirement benefit of \$20,998. Pursuant to Section 12-6-1170(B), a taxpayer may deduct up to \$15,000 from taxable income in the year the taxpayer attains the age of 65 years. Adjusting these figures to FY2013-14 levels, multiplying 28,178 military retirees over 65 years of age by an average military retirement benefit of \$26,440 less a \$15,000 annual deduction, a \$3,800 personal exemption, and a \$5,950 standard deduction from taxable income, and applying an average tax rate of 5.8% yields a reduction of General Fund individual income tax revenue of an estimated \$2,762,008 in FY2013-14. Also, pursuant to Section 12-6-1170(A)(1), a taxpayer may deduct up to \$3,000 from taxable income in the years before the taxpayer attains the age of 65 years. Adjusting these figures to FY2013-14 levels, multiplying 30,955 military retirees under 65 years of age by an average military retirement benefit of \$22,917 less a \$3,000 annual deduction, a \$3,800 personal exemption, and a \$5,950 standard deduction from taxable income, and applying an average tax rate of 5.8% yields a reduction of General Fund individual income tax revenue of an estimated \$18,253,730 in FY2013-14. In total, exempting the military benefits attributable to active duty service in the military would reduce General Fund individual income tax revenue by an estimated \$21,015,738 in FY2013-14. This act takes effect upon approval by the Governor and applies for taxable years beginning after 2012.



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¹¹ This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.