

South Carolina Board of Economic Advisors

Statement of Estimated State Revenue Impact

Date: March 7, 2011

Bill Number: H.B. 3085

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Committee Requesting Impact: House Ways & Means Committee

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 would reduce General Fund individual income tax revenue by an estimated \$25,173,667 in FY2011-12.

Explanation

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 2010. Based on the latest data from the United States Department of Defense, there are currently 55,433 military retirees in South Carolina receiving \$1,235,712,000 in annual military retirement benefits. This equates to an average annual retirement benefit of \$22,292 for each military retiree in the state. Of this amount, there are currently 25,013 military retirees over 65 years of age in the state receiving an average military retirement benefit of \$24,091 and 30,528 military retirees under 65 years of age in the state receiving an average military retirement benefit of \$20,813. 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 FY2011-12 levels, multiplying 26,858 military retirees over 65 years of age by an average military retirement benefit of \$27,547 less a \$15,000 annual deduction, a \$3,650 personal exemption, and a \$5,700 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 \$4,980,172 in FY2011-12. 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 FY2011-12 levels, multiplying 31,528 military retirees under 65 years of age by an average military retirement benefit of \$23,393 less a \$3,000 annual deduction, a \$3,650 personal exemption, and a \$5,700 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 \$20,193,495 in FY2011-12. 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 \$25,173,667 in FY2011-12. This act takes effect upon approval by the Governor and applies for taxable years beginning after 2010.


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^{1/} 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 of Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.