

Statement of Estimated State Revenue Impact

Date: March 26, 2013

Bill Number: H.B. 3112

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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 \$21,015,738 in FY2013-14.

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 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

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