

**COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2018 REGULAR SESSION**

MEASURE

2018 BR NUMBER **0986**

HOUSE BILL NUMBER **192**

RESOLUTION NUMBER _____

AMENDMENT NUMBER _____

SUBJECT/TITLE **An ACT relating to an exemption of income taxation for military pensions.**

SPONSOR **Representative Thomas**

NOTE SUMMARY

FISCAL ANALYSIS: IMPACT NO IMPACT INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT: STATE LOCAL FEDERAL

BUDGET UNIT(S) IMPACT: _____

FUND(S) IMPACT: GENERAL ROAD FEDERAL RESTRICTED AGENCY _____ OTHER

FISCAL SUMMARY

FISCAL ESTIMATES	2017-2018	2018-2019	2019-2020	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES		(875,000)	(2,625,000)	(3,500,000)
EXPENDITURES				
NET EFFECT		(875,000)	(2,625,000)	(3,500,000)

() indicates a decrease/negative

MEASURE'S PURPOSE: HB 192 proposes an income tax exemption for pensions of retired members of the United States Armed Forces, the reserves of the United States Armed Forces, and the National Guard. The purpose of the exemption is to encourage military personnel to remain residents of Kentucky after retirement.

PROVISIONS/MECHANICS: Section 1 amends KRS 141.010 to exclude military pension plan distributions from the adjusted gross income reported for Kentucky Income Tax. The exclusion pertains to taxable years beginning on or after January 1, 2019, but ending before January 1, 2023. This section also includes the purpose of the exclusion and adds reporting requirements for the Department of Revenue.

Sections 2 through 8 contain amendments to various sections in KRS Chapters 131 and 141 to include the reporting requirements of the Department of Revenue and to make conforming changes.

FISCAL EXPLANATION: Overall, HB 192 is expected to have a negative fiscal impact. Currently, \$41,110 of retirement income is excluded from the adjusted gross income. Any retirement distributions received above that amount are taxed based on the applicable income tax bracket. HB 192 proposes to exempt all military retirement distributions for retirees that qualify.

Based on data from the Department of Defense, military retirees who reach a higher rank will receive an annual pension income above the \$41,110 that is currently excluded. Those rankings consist of Chief of Staff, Admiral, General, Vice Admiral, Brigadier General, Colonel, Captain, Lieutenant Colonel, Commander, Major, and Chief Warrant Officer. Enlisted persons who serve more than 20 years may also exceed \$41,110 in pension income.

There are approximately 4,000 military retirees living in Kentucky with a pension income above \$41,110. Using an estimated average yearly pension income, less the \$41,110 exempted, multiplied by the effective tax rate of 5.8 percent, the estimated fiscal impact of HB 192 is (\$3,5000,000.)

KRS 141.021 provides an exemption for military retirement income based on the retiree's years of service prior to 1998. Since specific data about each retiree's years of service is unknown, KRS 141.021 was not considered in calculating the estimated fiscal impact of HB 192. It can be assumed that a portion of the retirement income used to calculate the fiscal impact would qualify for the exemption provided by KRS 141.021 and would need to be removed from the fiscal impact calculation. The removal would result in a lower fiscal impact; however, it is unknown exactly how much lower. As time passes, less retirement income will qualify for the exemption under KRS 141.021 and its impact will diminish.

The purpose of the military pension income exclusion is to provide an incentive for higher pay military retirees to live in Kentucky and not relocate to states that exempt retirement distributions from taxation. Retirees that choose to remain in Kentucky will pay other taxes, such as sales, excise, and property taxes. The payment of these taxes will have a positive impact on the state and local economy. However, estimating the amount of the positive impact is difficult due to the unpredictable variables.

Additional administrative costs may occur to monitor the provisions of HB 192; however, expenditures are not expected to significantly increase.

DATA SOURCE(S): LRC A&R, LRC Economist, Department of Defense Statistical Report on the Military Retirement System FY 2016

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