

**COMMONWEALTH OF KENTUCKY FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2019 REGULAR SESSION**

MEASURE

2019 BR NUMBER 0276

HOUSE BILL NUMBER 66

TITLE AN ACT relating to an exemption of income taxation for military pensions.

SPONSOR Representative Walker Thomas

FISCAL SUMMARY

STATE FISCAL IMPACT: YES NO UNCERTAIN

OTHER FISCAL STATEMENT(S) THAT MAY APPLY: ACTUARIAL ANALYSIS LOCAL MANDATE CORRECTIONS IMPACT HEALTH BENEFIT MANDATE

APPROPRIATION UNIT(S) IMPACTED: _____

FUND(S) IMPACTED: GENERAL ROAD FEDERAL RESTRICTED _____

FISCAL ESTIMATES	2018-2019	2019-2020	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES			(\$3,900,000)
EXPENDITURES			
NET EFFECT			(\$3,900,000)

() indicates a decrease/negative

PURPOSE OF MEASURE: HB 66 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.

FISCAL EXPLANATION: HB 66 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, 2021. Therefore, HB 66 will not have a fiscal impact in the current biennium.

Currently, \$31,110 of retirement income is excluded from the adjusted gross income. Any retirement distributions received above that amount are taxed at a 5 percent tax rate. HB 66 proposes to exempt all military retirement distributions for retirees that qualify. According to the U.S. Department of Defense, there were 26,461 military retirees in Kentucky who were paid by the department as of September 30, 2017. On average, each Kentucky military retiree received an estimated \$24,340 in retirement income annually. While the average annual retirement income is below the \$31,110 threshold, an estimated total of 6,374 officers and enlisted military retirees in Kentucky receive an amount above the threshold. The estimated annual, negative, fiscal impact of HB 66 at full implementation is \$3,900,000.

The annual cost-of-living adjustments (COLAs) to military retirement income effective on December 1, 2018 were not accounted for in the estimated fiscal impact of HB 66. To the extent that the Department of

Defense adjusts military retirement income annually using COLAs, the estimate could understate the true impact.

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 66. 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 estimate uses data from the U.S. Department of Defense Statistical Report on the Military Retirement System for FY 2017. The report provides the number of military retirees and the average amount of retirement income of military retirees in Kentucky. It also provides the number of military retirees who make above the \$31,110 threshold only for the national level. The national data on the number of military retirees who make above the \$31,110 threshold was used to estimate the percentage of military retirees in Kentucky making above the threshold, taking into account factors that affect the military retiree population and retirement income in Kentucky. The estimate assumes that the population in the survey is representative of the actual population of military retirees in Kentucky. To the extent that the national distribution of military retirees by rank is different from the Kentucky military retiree population, the estimate may overstate or understate the true impact.

Additional administrative costs may occur to monitor the provisions of HB 66; however, expenditures are not expected to significantly increase.

DATA SOURCE(S): LRC staff; U.S. Department of Defense Statistical Report on Military Retirement System for FY 2017

PREPARER: Cynthia Brown NOTE NUMBER: 20 REVIEW: JAB DATE: 2/4/2019