COMMONWEALTH OF KENTUCKY FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2020 REGULAR SESSION

MEASURE

2020 BR NUMBER 215 HOUSE BILL NUMBER 35

TITLE AN ACT relating to the taxation of pension income, making an appropriation therefor, and declaring an emergency.

SPONSOR Representative Regina Huff

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	2019-2020	2020-2021	2021-2022	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES	($24,600,000)	($12,300,000)	($12,300,000)	($12,300,000)
EXPENDITURES				
NET EFFECT	($24,600,000)	($12,300,000)	($12,300,000)	($12,300,000)

( ) indicates a decrease/negative

PURPOSE OF MEASURE: The purpose of this proposal is to reverse the reduction to the pension income exclusion enacted in 2018 Regular Session HB 487.

FISCAL EXPLANATION: Prior to the enactment of 2018 Regular Session HB 487, the pension income exclusion for individual income was $41,110 annually for each retiree. 2018 Regular Session HB 487 reduced the pension income exclusion to $31,110 annually for each retiree. The proposal would restore the pension income exclusion to $41,110 annually for each retiree retroactively for taxable years beginning on or after January 1, 2018, and would require the Department of Revenue to automatically issue refunds of excess income tax paid for any individual who has filed or files an individual income tax return before the proposal is integrated into the tax return form.

The estimated impact of reversing the pension income exclusion is a negative impact to the General Fund of $12.3 million annually. Because of the retroactive nature of the application of this proposal which requires the Department of Revenue to automatically issue refunds to those impacted taxpayers in prior years, the first year's impact would be larger. The Department would be required to automatically issue refunds for the taxable years beginning on January 1, 2018, and January 1, 2019. Therefore, two taxable years of impact may be realized in the current fiscal year, with the estimated impact of full implementation being one taxable year of negative impact in each year of the upcoming biennium.

DATA SOURCE(S): **LRC staff**
PREPARER: **Jennifer Hays** **NOTE NUMBER**: **32** **REVIEW**: **JAB** **DATE**: **1/16/2020**