

**COMMONWEALTH OF KENTUCKY FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2021 REGULAR SESSION**

MEASURE

2021 BR NUMBER 241

HOUSE BILL NUMBER 37

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	2020-2021	2021-2022	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES		(\$6.69 million)	(\$6.69 million)
EXPENDITURES			
NET EFFECT		(\$6.69 million)	(\$6.69 million)

() indicates a decrease/negative

PURPOSE OF MEASURE: Currently, KRS 141.019 excludes from the Kentucky income tax up to \$31,110 of total distributions received from various pension and retirement plans. Removing the \$31,110 income exclusion cap for military retirees would exclude 100% of military retirement income for Kentucky income tax purposes for taxable years beginning on or after January 1, 2021, but before January 1, 2025. That income would remain taxable for federal income tax purposes. Furthermore, the proposal also allows a 100% exclusion for a retired member’s surviving spouse or former spouse derived from the retired member’s military pension plan.

FISCAL EXPLANATION: There is a negative fiscal impact to the General Fund with the enactment of this legislation. According to the U.S. Department of Defense, 26,439 military retirees in Kentucky were paid by the department as of September 30, 2019. On average, each Kentucky military retiree received an estimated \$25,729 in retirement income annually. While the average annual retirement income is below the \$31,110 threshold, an estimated total of 6,404 officers and enlisted military retirees in Kentucky receive an amount above the threshold.

LRC staff estimates that the fiscal impact of exempting all military retirement income above the current \$31,110 threshold for the estimated 6,404 officers and enlisted military retirees whose retirement income currently exceeds this threshold to be an estimated fiscal impact of \$4.54 million in a full fiscal year.

As of September 2018, there were 4,223 total survivors who received benefits derived from the retired member's military pension. LRC staff estimate a fiscal impact of \$2.15 million in a full fiscal year by exempting 100% of these benefits.

DATA SOURCE(S): LRC Staff

PREPARER: Sarah Watts NOTE NUMBER: 24 REVIEW: JAB DATE: 2/25/2021