

**COMMONWEALTH OF KENTUCKY FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2022 REGULAR SESSION**

MEASURE

2022 BR NUMBER 197

HOUSE BILL NUMBER 96

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	2021-2022	2022-2023	2023-2024	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES		(\$9,000,000)	(\$9,390,000)	(Indeterminable)
EXPENDITURES				
NET EFFECT		(\$9,000,000)	(\$9,390,000)	(Indeterminable)

() indicates a decrease/negative

PURPOSE OF MEASURE: HB 96 allows an exclusion from income for all military retirement benefits received by the retired member or a surviving spouse of the retired member. Some military retirees receive tax benefits under the retirement income exclusion (KRS 141.019), which excludes up to \$31,110 of gross retirement income from the Kentucky individual income tax. Removing the \$31,110 income exclusion cap for military retirees would exclude 100 percent of military retirement income from the Kentucky individual income tax.

Some survivors receive income through the Survivor Benefit Plan (SBP). The SBP provides annuity payments to survivors upon the death of a military retiree who received military retirement income and opted to cover eligible dependents under the plan. Currently, 100 percent of SBP payments are subject to Kentucky’s individual income tax.

FISCAL EXPLANATION: Staff estimate the following fiscal impacts based on current data, tax benefits, and the individual income tax rate. Any changes in assumptions or future changes in tax policy or rates could change the estimates.

The estimate for the military retirement income exclusion uses data from the U.S. Department of Defense’s Statistical Report on the Military Retirement System for FY 2020. 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. Staff used the national data on the number of military retirees who make above the \$31,110 threshold 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 than the Kentucky military retiree population, the estimate may over- or under-estimate the true impact.

According to the U.S. Department of Defense, there were 26,428 military retirees in Kentucky who were paid by the department as of September 30, 2020. On average, each Kentucky military retiree received an estimated \$26,168 in retirement income annually. While the average annual retirement income is below the \$31,110 threshold, an estimated total of 6,434 officers and enlisted military retirees in Kentucky receive an amount above the threshold. Table 1 shows the estimated fiscal impact of exempting all military retirement income above the current \$31,100 threshold for the estimated 6,434 officers and enlisted military retirees whose retirement income currently exceeds this threshold.

Staff received data on the number of survivors receiving SBP payments and the total monthly amount paid from the U.S. Department of Defense’s Office of the Actuary. As of September 2020, there were 4,202 total survivors who received SBP benefits.¹ Beneficiaries under the SBP program include spouses and children, former spouses and children, children, and insurable interests.²

Table 1 shows the estimated fiscal impact of these exemptions for surviving spouses and former spouses. The fiscal impact of 2022 RS HB96 would be a reduction in General Fund revenue of approximately \$9.0 million in FY 2023 and \$9.39 million in FY 2024.

Table 1
Estimated Fiscal Impact of a 100 Percent Exemption of
Military Retirement and SBP Income, in millions

	FY 2023	FY 2024
Military Retirement Income Exemption	(6.54)	(6.81)
SBP Income Exemption	(2.46)	(2.58)
Total Fiscal Impact	(9.0)	(9.39)

Data Source: Department of Defense Statistical Report on the Military Retirement System for FY 2020 and author’s calculations

DATA SOURCE(S): LRC Staff

PREPARER: Sarah Watts **NOTE NUMBER:** 122 **REVIEW:** JAB **DATE:** 3/11/2022

¹ The Survivor Benefit Plan was formerly known as the Retired Serviceman's Family Protection Plan (RSFPP).

² According to the Defense Finance and Accounting Service, insurable interests are individuals who can be covered in cases where the military retiree has no other eligible dependents. Examples include siblings and children other than eligible children.