

**COMMONWEALTH OF KENTUCKY FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2024 REGULAR SESSION**

MEASURE

2024 BR NUMBER 801

HOUSE BILL NUMBER 123

TITLE AN ACT relating to income taxation of 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	2023-2024	2024-2025	2025-2026	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES			(\$6,600,000)	
EXPENDITURES				
NET EFFECT			(\$6,600,000)	

() indicates a decrease/negative

PURPOSE OF MEASURE: House Bill 123 proposes to allow an individual income exclusion for all military pension and Survivor Benefit Plan (SBP) benefits in excess of \$31,110. Currently, KRS 141.019 allows an exclusion of up to \$31,110 for all gross retirement income from Kentucky individual income tax.

FISCAL EXPLANATION: Staff used data from the US Department of Defense's Statistical Report on the Military Retirement System for FY 2022 in determining an estimate for the military retirement income exclusion. According to the U.S. Department of Defense, there were 26,226 military retirees in Kentucky who were paid by the department as of September 30, 2022. On average, each Kentucky military retiree received an estimated \$26,646 in retirement income annually. While the average annual retirement income is below the \$31,110 threshold, an estimated total of 9,467 officers and enlisted military retirees in Kentucky receive an amount above this threshold.

Some survivors receive income through the SBP, which 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. Staff also 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 2022, there were 4,166 total survivors who received SBP benefits.

The estimated fiscal impact of this proposed legislation was computed using the individual income tax rate of 4 percent. The fiscal impact of this proposal results in a reduction in General Fund revenue of approximately \$6.6 million in FY 2026.

DATA SOURCE(S): LRC Staff

PREPARER: Sarah Watts NOTE NUMBER: 37 REVIEW: JH DATE: 2/22/2024