

# REPORT OF THE SALES AND INCOME TAX SUBCOMMITTEE

(Crawford, Simrill, Erickson, Daning & Stavrinakis - Staff Contact: Emma Hall)

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## HOUSE BILL 3247

H. 3247 -- Rep. G.M. Smith: A BILL TO AMEND THE CODE OF LAWS OF SOUTH CAROLINA, 1976, SO AS TO ENACT THE "WORKFORCE ENHANCEMENT AND MILITARY RECOGNITION ACT"; TO AMEND SECTION 12-6-1171, RELATING TO THE MILITARY RETIREMENT INCOME DEDUCTION, SO AS TO PHASE-IN THE REMOVAL OF CERTAIN LIMITS.

*Received by Ways and Means:* 1/12/2021

*Summary of Bill:* This bill gradually removes the limit currently in place on how much retirement income military retirees can deduct each year. Currently, they can only deduct up to \$17,500 and \$30,000 if they're over the age of 65. It includes a six year phase-in, beginning in 2022, increasing the deduction by \$2,900 each year. A version of this without the gradual phase-in passed the House last session and had a fiscal impact of approximately \$9.8.

*Estimated Revenue Impact:* The bill will decrease General Fund individual income tax revenue by a total of \$2,963,000 in FY 2022-23.

*Other Notes/Comments:* The subcommittee amended this bill to remove the cap and the earned income requirement immediately, rather than a phase-in approach. The updated fiscal impact is approximately \$8 million.

HOUSE  
AMENDMENT

THIS AMENDMENT  
ADOPTED

GOOD/RUSHTON  
FEBRUARY 1, 2022

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CLERK OF THE HOUSE

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THE SALES AND INCOME TAX SUBCOMMITTEE PROPOSES THE  
FOLLOWING AMENDMENT NO. TO H. 3247  
(COUNCIL\DG\3247C001.AR.DG22):

REFERENCE IS TO THE BILL AS INTRODUCED.

**AMEND THE BILL, AS AND IF AMENDED, BY  
STRIKING SECTIONS 2 AND 3 AND INSERTING:**

**/ SECTION 2. SECTION 12-6-1171(A) OF THE  
1976 CODE IS AMENDED TO READ:**

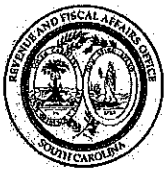
**MAY DEDUCT ALL MILITARY RETIREMENT  
~~“(A)(1) AN INDIVIDUAL TAXPAYER WHO HAS  
INCOME, EACH YEAR MAY DEDUCT AN AMOUNT OF  
HIS SOUTH CAROLINA EARNED INCOME FROM  
SOUTH CAROLINA TAXABLE INCOME EQUAL TO~~**

~~THE AMOUNT OF MILITARY RETIREMENT INCOME THAT IS INCLUDED IN SOUTH CAROLINA TAXABLE INCOME, NOT TO EXCEED SEVENTEEN THOUSAND FIVE HUNDRED DOLLARS. IN THE CASE OF MARRIED TAXPAYERS WHO FILE A JOINT FEDERAL INCOME TAX RETURN, THE DEDUCTION ALLOWED BY THIS SECTION SHALL BE CALCULATED SEPARATELY AS THOUGH THEY HAD NOT FILED A JOINT RETURN, SO THAT EACH INDIVIDUAL'S DEDUCTION IS BASED ON THE SAME INDIVIDUAL'S RETIREMENT INCOME AND EARNED INCOME. FOR PURPOSES OF THIS ITEM, 'SOUTH CAROLINA EARNED INCOME' HAS THE SAME MEANING AS PROVIDED IN SECTION 12-6-3330.~~

~~(2) NOTWITHSTANDING ITEM (1), BEGINNING IN THE YEAR IN WHICH AN INDIVIDUAL TAXPAYER REACHES AGE SIXTY-FIVE, AN INDIVIDUAL TAXPAYER WHO HAS MILITARY RETIREMENT INCOME MAY DEDUCT UP TO THIRTY THOUSAND DOLLARS OF MILITARY RETIREMENT INCOME THAT IS INCLUDED IN SOUTH CAROLINA TAXABLE INCOME."~~

**SECTION 3. THIS ACT TAKES EFFECT UPON APPROVAL BY THE GOVERNOR AND FIRST APPLIES TO TAX YEARS BEGINNING AFTER 2021. /**

**RENUMBER SECTIONS TO CONFORM.  
AMEND TITLE TO CONFORM.**



**SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE**  
**STATEMENT OF ESTIMATED FISCAL IMPACT**  
**(803)734-3780 • RFA.SC.GOV/IMPACTS**

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*This fiscal impact statement is produced in compliance with the South Carolina Code of Laws and House and Senate rules. The focus of the analysis is on governmental expenditure and revenue impacts and may not provide a comprehensive summary of the legislation.*

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**Bill Number:** H. 3247 Introduced on January 12, 2021  
**Author:** G.M. Smith  
**Subject:** Workforce Enhancement and Military Recognition Act  
**Requestor:** House Ways and Means  
**RFA Analyst(s):** Jolliff  
**Impact Date:** March 17, 2021

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### **Fiscal Impact Summary**

This bill would increase the amount of the current deductions for military retirement income. The increase in the deduction is phased in from tax year 2022 through 2027. We anticipate that the Department of Revenue (DOR) will implement the change with existing staff and resources. Therefore, the bill is not expected to impact expenditures for the agency.

The bill will decrease General Fund individual income tax revenue by a total of \$2,963,000 in FY 2022-23, \$5,153,000 in FY 2023-24, \$6,842,000 in FY 2024-25, \$8,505,000 in FY 2025-26, \$10,143,000 in FY 2026-27, \$11,759,000 in FY 2027-28, and \$12,889,000 in FY 2028-29 and thereafter.

### **Explanation of Fiscal Impact**

#### **Introduced on January 12, 2021**

##### **State Expenditure**

This bill would increase the current income tax deductions for military retirement income. We anticipate that DOR will implement the changes with existing staff and resources. Therefore, the bill is not expected to impact expenditures for the agency.

##### **State Revenue**

This bill would amend the military retirement income deductions in Section 12-6-1171 by increasing the deduction amounts each year from tax year 2022 through 2027. Currently, taxpayers are allowed an individual income tax deduction of up to \$17,500 of earned income for taxpayers under age 65 that receive military retirement income for tax year 2021. The deduction is equal to the amount of military retirement income, not to exceed \$17,500. When a taxpayer reaches age 65, the taxpayer may deduct up to \$30,000 of military retirement income.

The bill would increase the current allowable deduction amount for earned income of individuals under age 65 of \$17,500 by \$2,900 beginning in tax year 2022 through 2027. Beginning in tax year 2027, the amount of the deduction is expanded to the full amount of earned income. For individuals 65 and over, the current \$30,000 deduction is increased by \$3,000 per year beginning in tax year 2022 through 2027. Beginning in tax year 2028, the deduction is the full amount of military retirement income for taxpayers 65 and over.

For this analysis, we used the latest data from the Department of Defense, Office of the Actuary as of September 2020 provided by the SC Department of Veterans Affairs. Since Section 12-6-1171 allows different amounts of retirement income deductions by taxpayers depending on their age, we used these data to segregate taxpayers with military retirement income into two categories: under age 65 and age 65 and older.

Table 1 reports the estimated revenue impact of increasing the earned income deduction for military retirement income for taxpayers under age 65 beginning in tax year 2022. By full implementation, the deduction for taxpayers under 65 will reduce General Fund individual income tax revenue by up to \$9,037,000 in FY 2028-29. Because a taxpayer under age 65 must have earned income equal to the amount of military retirement, the deduction may be less than the full amount estimated, particularly in FY 2028-29 when the military retirement income deduction amount is only limited by the amount of earned income. However, the income tax returns do not provide sufficient information to determine the amount that will not be deducted. Therefore, we have included the maximum potential deduction.

**Table 1: Tax Revenue Reduction from Phased-in Deduction for Military Retirees Under Age 65**

<b>Fiscal Year</b>	<b>Total Number of Active Duty Military Retirees</b>	<b>Maximum Earned Income Deduction Amount</b>	<b>Annual Revenue Reduction</b>	<b>Annual Additional Revenue Reduction</b>
FY 2022-23	17,646	\$20,400	(\$1,475,000)	
FY 2023-24	17,402	\$23,300	(\$2,910,000)	(\$1,435,000)
FY 2024-25	17,162	\$26,200	(\$4,305,000)	(\$1,395,000)
FY 2025-26	16,925	\$29,100	(\$5,661,000)	(\$1,356,000)
FY 2026-27	16,691	\$32,000	(\$6,978,000)	(\$1,317,000)
FY 2027-28	16,461	\$34,900	(\$8,258,000)	(\$1,280,000)
FY 2028-29	16,233	all earned income	(\$9,037,000)	(\$779,000)

Table 2 reports the estimated revenue impact of increasing the military retirement income deduction for taxpayers age 65 and over beginning in tax year 2022. By full implementation, the deduction for taxpayers age 65 and over will reduce General Fund individual income tax revenue by up to \$3,852,000 in FY 2028-29.



**SOUTH CAROLINA  
REVENUE AND FISCAL AFFAIRS OFFICE**

EDWARD B. GRIMBALL, Chairman  
ALAN D. CLEMMONS  
EMERSON F. GOWER, JR.

FRANK A. RAINWATER  
Executive Director

January 28, 2022

Ms. Meredith Ross  
Assistant General Counsel and Legislative Director  
House Ways and Means Committee  
525 Blatt Building  
Columbia, SC 29201

Dear Ms. Ross:

This letter is in response to your request for the estimated revenue impact of a full deduction of military retirement income with no requirements for earned income in tax year 2022. Please be advised that in SC Revenue Ruling 21-13 issued in late 2021, the Department of Revenue stated that a taxpayer age 65 and over is eligible for both the earned income deduction of \$17,500 and a military retirement deduction of up to \$30,000, as opposed to only the military retirement deduction. This guidance has affected our analysis of the impact.

Presently, Section 12-6-1171 provides an individual income tax deduction of up to \$17,500 of earned income for taxpayers that also have military retirement income. The deduction is equal to the amount of military retirement income included in taxable income, not to exceed \$17,500. Taxpayers age 65 and over may also deduct up to \$30,000 of military retirement income without regard to earned income.

DOR's guidance that taxpayers age 65 and over may claim both the earned income and military retirement deductions was not addressed in the tax return instructions for 2021 or in prior years. As such, we do not anticipate that the impact is currently reflected in our revenue collections for FY 2021-22. We anticipate adjusting for the additional impact if the Board of Economic Advisors (BEA) revises its forecast for FY 2022-23 on February 15, 2022. Our analysis is based upon the anticipated impact of this new guidance.

Based upon the latest data provided by the SC Department of Veterans Affairs from the Department of Defense, Office of the Actuary through September 2021, the estimated revenue impact in FY 2022-23 for these deductions totals \$22,914,000.

The first row of the table below reports the estimated revenue impact of the current deductions and proposed full deduction of all military retirement income for taxpayers under age 65 in tax year 2022. We estimate that the individual income tax revenue impact of a fully implemented military retirement income deduction in FY 2022-23 will total \$18,714,000 for taxpayers under age 65. The BEA forecast for individual income tax revenue includes the impact of the current deductions, which is estimated to be \$11,025,000. Therefore, the proposed complete deduction of the remaining military retirement for taxpayers under age 65 will reduce individual income tax revenue by an additional \$7,689,000 in FY 2022-23.

The second row of the table below reports the estimated revenue impact of the current and proposed deduction for taxpayers age 65 and older in tax year 2022. We estimate that the individual income tax revenue impact of the fully implemented military retirement income deduction in FY 2022-23 will total \$12,172,000 for taxpayers age 65 and over. For these taxpayers, the BEA forecast includes the reduction in the individual income tax revenue for the current deduction estimated to be \$10,036,000. Therefore, the proposed complete deduction of the remaining military retirement for taxpayers age 65 and older will reduce individual income tax revenue by an additional \$2,136,000 in FY 2022-23.

Our estimate of the earned income deduction for taxpayers age 65 and over with military retirement is based upon data from the Census Bureau and the Bureau of Labor Statistics. Using 2021 figures, approximately 18.5 percent of the estimated U.S. population age 65 and over is employed. The code section allows a taxpayer to deduct up to \$17,500 of earned income equal to military income. Based upon an average tax rate of 2.88 percent for a deduction of \$17,500, this deduction will reduce income tax by approximately \$504 per qualifying taxpayer. The average tax rate for this deduction amount accounts for the fact that many returns are already reduced to zero before the additional deduction. Multiplying 18.5 percent by the 19,869 individuals with military retirement, we estimate that approximately 3,676 will be eligible for the \$504 deduction totaling \$1,853,000.

The net change for taxpayers age 65 and over will be an additional reduction of \$283,000. This change is shown in the fourth row of the table below.

Combining the revenue impacts of the deduction for all military retirees results in an estimated total reduction in General Fund individual income tax revenue of \$30,886,000. Of this total, the current revenue forecast includes an estimated reduction of \$21,061,000. Therefore, the proposed complete deduction of all remaining military retirement income beginning in tax year 2022 will reduce General Fund individual income tax revenue by an additional \$9,825,000 in FY 2022-23.



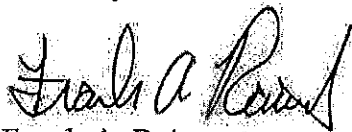
**Estimated Number and Tax Revenue Reduction for  
 Military Retirees FY 2022-23**

Age of Military Retirees	Total Estimated Number of Active Duty Military Retirees	Total Tax Revenue Reduction from Full Military Retirement Deduction	Total Revenue Reduction from Act 272 of 2016	Additional Revenue Reduction from Full Military Retirement Deduction
Under Age 65	17,603	(\$18,714,000)	(\$11,025,000)	(\$7,689,000)
Age 65 and Older (Retirement)	19,869	(\$12,172,000)	(\$10,036,000)	(\$2,136,000)
Age 65 and Older (Earned Income) <sup>1</sup>	3,676	\$0	(\$1,853,000)	\$1,853,000
Age 65 and Older (Total)	19,869	(\$12,172,000)	(\$11,889,000)	(\$283,000)
<b>Total</b>	<b>37,471</b>	<b>(\$30,886,000)</b>	<b>(\$22,914,000)</b>	<b>(\$7,972,000)</b>

<sup>1</sup> Reflects guidance issued by the S.C. Department of Revenue in SC Revenue Ruling 21-13

If we may be of further assistance, please advise.

Sincerely,



Frank A. Rainwater  
 Executive Director

FAR/lhj

**South Carolina General Assembly**  
124th Session, 2021-2022

**H. 3247**

**STATUS INFORMATION**

General Bill

Sponsors: Reps. G.M. Smith, B. Cox, V.S. Moss, Yow, Huggins, Erickson, Bradley, Allison, Felder, B. Newton, W. Newton and Herbkersman

Document Path: I:\council\bill\ncd\11095dg21.docx

Companion/Similar bill(s): 217, 4527

Introduced in the House on January 12, 2021

Currently residing in the House Committee on **Ways and Means**

Summary: Workforce Enhancement and Military Recognition Act

**HISTORY OF LEGISLATIVE ACTIONS**

<u>Date</u>	<u>Body</u>	<u>Action Description with journal page number</u>
12/9/2020	House	Prefiled
12/9/2020	House	Referred to Committee on <b>Ways and Means</b>
1/12/2021	House	Introduced and read first time ( <u>House Journal-page 129</u> )
1/12/2021	House	Referred to Committee on <b>Ways and Means</b> ( <u>House Journal-page 129</u> )
1/26/2021	House	Member(s) request name added as sponsor: Yow
2/2/2022	House	Member(s) request name added as sponsor: Huggins, Erickson, Bradley, Allison, Felder, B.Newton
2/3/2022	House	Member(s) request name added as sponsor: W.Newton, Herbkersman

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**VERSIONS OF THIS BILL**

12/9/2020

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**A BILL**

TO AMEND THE CODE OF LAWS OF SOUTH CAROLINA, 1976, SO AS TO ENACT THE “WORKFORCE ENHANCEMENT AND MILITARY RECOGNITION ACT”; TO AMEND SECTION 12-6-1171, RELATING TO THE MILITARY RETIREMENT INCOME DEDUCTION, SO AS TO PHASE-IN THE REMOVAL OF CERTAIN LIMITS.

Be it enacted by the General Assembly of the State of South Carolina:

SECTION 1. This act shall be known and may be cited as the “Workforce Enhancement and Military Recognition Act”.

SECTION 2. Section 12-6-1171(A) of the 1976 Code is amended by adding an appropriately numbered item to read:

“(a) Notwithstanding the maximum deduction of South Carolina earned income set forth in item (1), as limited by the amount of military retirement included in South Carolina taxable income, beginning in tax year 2022, the maximum deduction for such taxpayers may not exceed twenty thousand four hundred dollars. Each year thereafter, the maximum deduction amount increases by two thousand nine hundred dollars through tax year 2027, after which the maximum deduction is limited only by the amount of South Carolina earned income.

(b) Notwithstanding the maximum deduction of military retirement income set forth in item (2), beginning in tax year 2022, the maximum deduction for such taxpayers may not exceed thirty-three thousand dollars. Each year thereafter, the maximum deduction amount increases by three thousand dollars through tax year 2027, after which all military retirement income may be deducted from South Carolina taxable income.”

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SECTION 3. This act takes effect upon approval by the Governor.

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