



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: H. 3135 Introduced on January 8, 2019
Author: G.M. Smith
Subject: Workforce Enhancement and Military Recognition Act
Requestor: House Ways and Means
RFA Analyst(s): Shuford
Impact Date: January 15, 2019

Fiscal Impact Summary

This bill will have no expenditure impact on the General Fund, Other Funds, or Federal Funds since any additional duties of the Department of Revenue (DOR) in modifying individual income tax forms and instructions will be managed within existing appropriations.

This bill will reduce General Fund individual income tax revenue by an additional \$9,852,765 in FY 2021-22 from the proposed complete deduction of all remaining military retirement income beginning in tax year 2021.

Explanation of Fiscal Impact

Introduced on January 8, 2019

State Expenditure

The bill alters the military retirement income deduction, which may require the department to modify individual income tax forms and instructions. DOR indicates that these additional duties will be managed within existing appropriations. Therefore, this bill will have no expenditure impact on the General Fund, Other Funds, or Federal Funds.

State Revenue

Beginning in tax year 2021, this bill allows an individual taxpayer under age 65 who has military retirement income to deduct an equal amount of South Carolina earned income from taxable income. This bill allows further that a taxpayer 65 and older who has military retirement income to deduct any military retirement income that is included in South Carolina taxable income.

Presently, Act 272 of 2016 provides 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 2020. 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 military retirement deductions were phased-in beginning in tax year 2016 over a five-year period through tax year 2020. The estimated revenue impact in FY 2020-21 for these deductions total \$19,563,645. The BEA revenue forecast for that fiscal year will reflect this reduction in General Fund Individual income tax revenue.

Table 1 reports the estimated revenue impact of implementing Act 272 of 2016 and a full deduction of all military retirement income for taxpayers under age 65 in tax year 2021. We estimate that the individual income tax revenue impact of the fully implemented military

retirement income deduction in FY 2021-22 will total \$18,186,060. For taxpayers under age 65, the BEA has included a \$10,042,255 reduction in the individual income tax revenue forecast to implement Act 272 of 2016 through FY 2020-21. Therefore, the proposed complete deduction of the remaining military retirement for taxpayers under age 65 will reduce individual income tax revenue by an additional \$8,143,805 in FY 2021-22.

Table 1: Estimated Number and Tax Revenue Reduction for Military Retirees Under Age 65

Fiscal Year	Total Number of Active Duty Military Retirees	Maximum Earned Income Deduction Amount	Total Tax Revenue Reduction from Full Deduction	Annual Revenue Reduction	Additional Revenue Reduction from Full Military Retirement Deduction in H. 3135
FY 2016-17	19,338	\$5,900	(\$4,048,245)	(\$4,048,245)	\$0
FY 2017-18	19,410	\$8,800	(\$5,636,034)	(\$1,587,789)	\$0
FY 2018-19	19,481	\$11,700	(\$7,230,806)	(\$1,594,772)	\$0
FY 2019-20	19,553	\$14,600	(\$8,599,377)	(\$1,368,571)	\$0
FY 2020-21	19,625	\$17,500	(\$10,042,255)	(\$1,442,878)	\$0
FY 2021-22	19,697	All	(\$18,186,060)	(\$8,143,805)	(\$8,143,805)

Table 2 reports the estimated revenue impact of implementing Act 272 of 2016 and a full deduction of all military retirement income for taxpayers age 65 and older in tax year 2021. We estimate that the individual income tax revenue impact of the fully implemented military retirement income deduction in FY 2020-21 will total \$11,230,350. For taxpayers age 65 and older, the BEA has included a \$9,521,390 reduction in the individual income tax revenue forecast to implement Act 272 of 2016 through FY 2020-21. 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 \$1,708,960 in FY 2021-22.

Combining the revenue impacts of the retirement income tax deduction for all military retirees results in an estimated total reduction in General Fund individual income tax revenue of \$29,416,410 in FY 2021-22. Of this total, the BEA has included a \$19,563,645 reduction in the individual income tax revenue forecast to implement Act 272 of 2016 through FY 2020-21. Therefore, the proposed complete deduction of all remaining military retirement income beginning in tax year 2021 will reduce General Fund individual income tax revenue by an additional \$9,852,765 in FY 2021-22.

Table 2: Estimated Number and Tax Revenue Reduction for Military Retirees Age 65 and Older

Fiscal Year	Total Number of Active Duty Military Retirees	Maximum Retirement Income Deduction Amount	Total Tax Revenue Reduction from Full Deduction	Annual Revenue Reduction	Additional Revenue Reduction from Full Military Retirement Deduction in H. 3135
FY 2016-17	17,874	\$18,000	(\$2,451,350)	(\$2,451,350)	\$0
FY 2017-18	18,127	\$21,000	(\$4,282,550)	(\$1,831,200)	\$0
FY 2018-19	18,383	\$24,000	(\$6,143,350)	(\$1,860,800)	\$0
FY 2019-20	18,643	\$27,000	(\$7,892,100)	(\$1,748,750)	\$0
FY 2020-21	18,906	\$30,000	(\$9,521,390)	(\$1,629,290)	\$0
FY 2021-22	19,173	All	(\$11,230,350)	(\$1,708,960)	(\$1,708,960)

Table 3: Estimated Total Tax Revenue Reduction for All Military Retirees

Fiscal Year	Total Tax Revenue Reduction from Phased-In Deduction	Annual Tax Revenue Reduction from Full Deduction	Additional Revenue Reduction from Full Military Retirement Deduction in H. 3135
FY 2016-17	(\$6,499,595)	(\$6,499,595)	\$0
FY 2017-18	(\$9,918,584)	(\$3,418,989)	\$0
FY 2018-19	(\$13,374,156)	(\$3,455,572)	\$0
FY 2019-20	(\$16,491,477)	(\$3,117,321)	\$0
FY 2020-21	(\$19,563,645)	(\$3,072,168)	\$0
FY 2021-22	(\$29,416,410)	(\$9,852,765)	(\$9,852,765)

Local Expenditure

N/A

Local Revenue

N/A

Frank A. Rainwater, Executive Director