



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number:	S. 0194	Introduced on January 12, 2021
Author:	Hembree	
Subject:	Income Tax Deduction	
Requestor:	Senate Finance	
RFA Analyst(s):	Jolliff	
Impact Date:	February 1, 2021	

Fiscal Impact Summary

This bill creates a new income tax deduction for military and first responder retirement income. The bill is not expected to impact expenditures for the Department of Revenue (DOR) as we expect they will develop forms and administer these provisions with existing staff and resources.

The bill is expected to reduce General Fund individual income tax revenue by \$18,571,000 beginning in FY 2021-22.

Explanation of Fiscal Impact

Introduced on January 12, 2021

State Expenditure

This bill creates a new income tax deduction for military and first responder retirement income. DOR may require the taxpayer to provide the information necessary to administer the deduction. This bill is not expected to impact expenditures for DOR as we expect they will develop forms and administer these provisions with existing staff and resources.

State Revenue

Section 1 of the bill adds Section 12-6-1172 to create a new individual income tax deduction for military and first responder retirement income. A first responder is defined as a public law enforcement officer, firefighter, or peace officer whose public service would qualify the person to be a member of the South Carolina Officers Retirement System if the person was employed by the State of South Carolina. Qualifying retirement income is all income received by the taxpayer or a surviving spouse from a qualified military retirement plan or a qualified first responder retirement plan.

Section 12-6-1170(C) currently allows taxpayers age 65 and over to take a deduction of up to \$15,000 of any income and taxpayers under age 65 to take a deduction of \$3,000 of retirement income. Section 2 of the bill amends Section 12-6-1170(C) to specify that these deductions must be reduced by any amount deducted under the new military and first responder retirement deduction in Section 12-6-1172 in addition to the current reduction for amounts deducted under Section 12-6-1171, the current military retirement deduction.

Section 3 of the bill specifies that the deduction first applies in tax years beginning after 2020, or tax year 2021.

Given the differences in these two populations, the following analyses determine the impact for military and first responders separately and then summarize these two calculations.

Military Retirement Deduction Analysis

Presently, Section 12-6-1171, enacted in 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 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. Based upon the latest data from the Department of Defense, Office of the Actuary as of September 2020 provided by the SC Department of Veterans Affairs, we estimate the revenue impact for these current deductions totals \$20,895,000 in FY 2021-22.

Since Section 12-6-1171 allows different amounts of retirement income deductions by taxpayers depending on their age, we use Department of Defense data to segregate taxpayers with military retirement income into two categories: under age 65 and age 65 and older. Currently, taxpayers under age 65 may deduct earned income equal to their military retirement income up to a maximum of \$17,500 per year. Taxpayers age 65 and older may deduct military retirement income of up to \$30,000 per year.

The first row of the table below 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 a fully implemented military retirement income deduction in FY 2021-22 will total \$18,300,000 for the estimated 17,893 taxpayers under age 65. The BEA forecast for individual income tax revenue includes the full cost of implementing Act 272 of 2016, estimated to be \$11,072,000 for FY 2021-22. Therefore, the proposed complete deduction of the remaining military retirement income for taxpayers under age 65 will reduce individual income tax revenue by an additional \$7,228,000 in FY 2021-22.

The second row of the table below 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 2021-22 will total \$11,659,000 for the estimated 19,607 eligible taxpayers. For these taxpayers age 65 and older, the BEA forecast includes the reduction in the individual income tax revenue resulting from Act 272 of 2016, estimated to be \$9,823,000 for FY 2021-22. 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 \$1,836,000 in FY 2021-22.

Combining the revenue impacts of the retirement income tax deduction for all military retirees, will reduce General Fund individual income tax revenue by an additional \$9,064,000 in FY 2021-22.

**Estimated Number and Tax Revenue Reduction for
Military Retirees FY 2021-22**

Age of Military Retirees	Total Estimated Number of Active Duty Military Retirees	Total Tax Revenue Reduction from Full Deduction	Total Revenue Reduction from Act 272 of 2016	Additional Revenue Reduction from Full Military Retirement Deduction
Under Age 65	17,893	\$18,300,000	\$11,072,000	\$7,228,000
Age 65 and Older	19,607	\$11,659,000	\$9,823,000	\$1,836,000
Total	37,500	\$29,959,000	\$20,895,000	\$9,064,000

First Responders Deduction Analysis

This analysis is based on data from the South Carolina Police Officers Retirement System (PORS). Membership in PORS includes police officers, peace officers, firefighters, coroners, magistrates, and probate judges. Police officers and firefighters must earn at least \$2,000 per year and devote at least 1,600 hours per year to this work. This revenue estimate includes all members of PORS, because the Public Employee Benefit Authority (PEBA) is unable to differentiate retirees by their previous occupations. Therefore, the estimated revenue impact may be over inclusive to the bill, but we are unable to estimate this difference. In addition, this revenue estimate includes otherwise eligible police officers, peace officers, and firefighters’ retirement income earned in other states and retirement income of South Carolina retirees who do not participate in PORS.

Since current statutes allow various amounts of retirement income deductions by taxpayers depending on their age, we use PORS data to segregate these taxpayers into two categories: age 65 and older and under age 65. As stated above, taxpayers age 65 and older may deduct income of up to \$15,000 per year, while taxpayers under age 65 may deduct retirement income of up to \$3,000 per year under current law.

The latest available year of PORS data is for FY 2019-20. From this data, we estimate the number of retirees and their retirement benefits for tax year 2021, or FY 2021-22, by applying a growth rate of approximately 4.9 percent per year to the FY 2019-20 data, based on estimates provided by the PORS consulting actuary. We estimate the number of additional retirees not covered by PORS by calculating the percentage of protective service providers in South Carolina for ages 18 to 60 from Census Bureau data and applying that percentage to the South Carolina population aged 60 and over. This adds approximately 11.3 percent more retirees and retirement benefits to the analysis above the number of retirees and retirement benefits reported by PORS.

PORS data is adjusted further for retirement benefits paid to disabled retirees because income from a total and permanent disability is deductible under current statutes in South Carolina. To account for this already exempt retirement income, we reduce the amount of estimated retirement benefits by 5.8 percent. This reduction is derived from PORS data indicating that approximately 14.4 percent of all retirement benefits in FY 2019-20 were disbursed to disabled retirees. Additionally, PORS' actuarial consultant estimates that 40 percent of disabled retirees would be classified as totally and permanently disabled. The product of these two estimates results in a 5.8 percent reduction in total retirement benefits.

The table below reports the revenue impact by retirees under age 65, age 65 and older, and in total. Combining the revenue impacts of the proposed first responder retirement income deduction for both age groups results in an estimated reduction in General Fund individual income tax revenue of \$9,507,000 in FY 2021-22.

Estimated Number of Retirees and Revenue Impact for the Proposed First Responders Retirement Deduction

Fiscal Year	Estimated Number of First Responder Retirees	Estimated Annual Retirement Benefits	Estimated Average Retirement Benefit	Estimated Annual Retirement Benefits Deducted Under Current Law	Estimated Remaining Retirement Income	Estimated Revenue Impact for Deduction of Remaining Retirement Income
Under Age 65						
FY 2019-20	9,960	\$236,995,000	\$23,788	\$29,880,000	\$207,115,000	\$7,249,000
FY 2020-21e	10,310	\$248,573,000	\$24,114	\$30,930,000	\$217,643,000	\$7,618,000
FY 2021-22e	10,670	\$260,717,000	\$24,445	\$32,010,000	\$228,707,000	\$8,005,000
Age 65 and Older						
FY 2019-20	10,750	\$202,907,000	\$18,873	\$161,250,000	\$41,657,000	\$1,237,000
FY 2020-21e	11,120	\$212,821,000	\$19,132	\$166,800,000	\$46,021,000	\$1,367,000
FY 2021-22e	11,510	\$223,217,000	\$19,394	\$172,650,000	\$50,567,000	\$1,502,000
Total						
FY 2019-20	20,710	\$439,902,000	\$21,241	\$191,130,000	\$248,772,000	\$8,486,000
FY 2020-21e	21,430	\$461,394,000	\$21,530	\$197,730,000	\$263,664,000	\$8,985,000
FY 2021-22e	22,180	\$483,934,000	\$21,818	\$204,660,000	\$279,274,000	\$9,507,000

Source: Police Officers Retirement System Actuarial Valuation Report, various years. US Census Bureau Annual Estimates of the Resident Population for Selected Age Groups for South Carolina, July 1, 2019. All calculations and estimates are by RFA staff.

In summary, the revenue impact of the proposed military and first responder retirement income deduction for both age groups results in an estimated reduction in General Fund individual income tax revenue of \$18,571,000 in FY 2021-22 as outlined below.

Summary: Estimated Revenue Impact for the Proposed Military and First Responders Retirement Deduction, FY 2021-22

	Under 65	Age 65 and Over	Total
Military Retirement	\$7,228,000	\$1,836,000	\$9,064,000
First Responders Retirement	\$8,005,000	\$1,502,000	\$9,507,000
Total	\$15,233,000	\$3,338,000	\$18,571,000

Local Expenditure

N/A

Local Revenue

N/A



Frank A. Rainwater, Executive Director