

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: SB306**

**Bill Subtitle: TO INCREASE THE INCOME TAX EXEMPTION FOR RETIREMENT AND DISABILITY BENEFITS; TO PROVIDE A COST-OF-LIVING ADJUSTMENT TO THE INCOME TAX EXEMPTION FOR RETIREMENT AND DISABILITY BENEFITS.**

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**Basic Change :**

Senators J. Key, Bledsoe, J. Hendren, Holland, Rapert

The bill increases the income tax exemption for retirement and disability benefits from the current \$6,000 to \$10,000 for 2013 and 2014, and increases the exemption annually thereafter by the annual percentage increase in the Consumer Price Index (CPI) rounded to the nearest \$100 but does not decrease the exemption if the CPI is negative. The bill is effective for tax years beginning on or after January 1, 2013.

**Revenue Impact :**

2014 - \$39.9 million loss

2015 - \$43.8 million loss

**Taxpayer Impact :**

None

**Resources Required :**

Computer program and forms updated

**Time Required :**

Adequate time provided.

**Procedural Changes :**

Computer programs, tax forms and instructions, return processing and training procedures would need to be modified.

**Other Comments :**

None

**Legal Analysis :**

Under current law, the first \$6,000 of retirement or disability income received by a taxpayer is exempt from state income tax. The bill makes two significant changes to the retirement and disability benefits exemption:

- The amount of the exemption is increased from \$6,000 to \$10,000 and
- The amount of the exemption is indexed to the cost-of-living beginning 1/1/15 and will be subject to an annual adjustment.

No annual adjustment will be made that results in a reduction of the amount of the exemption below that of the preceding year. The adjustment language is similar to that in current state law for purposes of the annual adjustment regarding exemption from income tax and the low income tax credit, except that the adjustment in current law provides for a 3% cap on the increase in the CPE, and this bill contains no cap.

The increase in the exemption to \$10,000 will apply to tax years 2013 and 2014. The cost of living adjustment will apply beginning with tax year 2015.

The bill has no Emergency Clause and will become effective 90 days after adjournment.