

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1412

Amendment Number: H2 (3/6/15 Engrossment)

Bill Subtitle: TO CREATE AN INCOME TAX EXEMPTION FOR RETIREMENT AND SURVIVOR BENEFITS FROM THE UNIFORMED SERVICES.

Basic Change : Sponsors: Representatives C. Fite, C. Armstrong, Baltz, Branscum, Brown, Copeland, Cozart, Deffenbaugh, D. Douglas, Drown, Harris, K. Hendren, House, Johnson, Lemons, Lowery, Lundstrum, G. McGill, D. Meeks, B. Overbey, Ratliff, Richmond, Rushing, Sabin, Scott, B. Smith, Speaks, Sturch, Tosh, Vines, Wallace, D. Whitaker, Tucker, Ballinger
Senators Irvin, J. Hendren, Collins-Smith, B. Johnson, Rapert, Rice, E. Williams, J. Woods

HB1412 will create an income tax exemption for retirement and survivor benefits from the uniformed services. A member of the uniformed services means a retired member of the United States Navy, Army, Air Force, Marine Corps, Coast Guard, reserve components of the armed forces, national guard of any state, commissioned regular or reserve corps of the United States Public Health Service, and the commissioned corps of the National Oceanic and Atmospheric Administration.

Amendment No. 2 changes the bill to phase in the income tax exemption as follows:

- Tax Year 2015 – Current \$6,000 exemption increased to \$12,000;
- Tax Year 2016 – Exemption increased to \$20,000;
- Tax Year 2017 – Exemption increased to \$28,000;
- Tax year 2018 and following – All military retirement and survivor benefits exempt.

Revenue Impact :

FY2016 of \$4.8M reduction to General Revenue

FY2017 of \$10.2M reduction to General Revenue

FY2018 of \$11.5M reduction to General Revenue

FY2019 and after of \$13M per year reduction to General Revenue

Taxpayer Impact :

Taxpayers who were a member of the uniformed services and receive income from retirement and survivor benefits will have an increased exemption beginning with tax year 2015. All retirement and survivor benefits will be exempt from tax in 2018. Taxpayers will need to maintain records for military retirement income and claim the exemption on the return. Taxpayers who claim the military retirement exemption cannot also claim the \$6,000 exemption for any other retirement benefits.

Resources Required :

Update computer programs, tax forms, and instructions.

Time Required :

Adequate time is provided.

Procedural Changes :

Tax forms and instruction booklets will be updated. Tax preparers and employees will be trained.

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Other Comments :

Note: Page 2, Line 36 and Page 3, Line 1 has the 65 and over credit as \$20. Currently this is \$26 adjusted each year by the Consumer Price Index. Suggest referencing ACA 26-51-501 for the current amount.

Legal Analysis :

Engrossment 3/6/15 provides that the income tax exemption for military retirement and survivors benefits should be phased in beginning with Tax Year 2015. All military retirement and survivors' benefits will be exempt from Arkansas income tax for tax years beginning on or after January 1, 2018.