

Department of Finance and Administration

Legislative Impact Statement

Bill: SB13

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

Basic Change :

Sponsor: Senator J. English and Representative Johnson

SB13 provides an income tax exemption for retirement benefits received by a member of the uniformed services. The bill also provides an income tax exemption for survivor benefits that are funded by the retirement pay of a member of the uniformed services. A member of the uniformed services is defined as a retired member of the United States Army, Marine Corps, Navy, Air Force, Coast Guard, National Guard of any state, reserve components of any of the armed forces listed, the commissioned regular or reserve corps of the United States Public Health Service, and the commissioned corps of the National Oceanic and Atmospheric Administration. A taxpayer claiming an exemption under § 26-51-307(e) may also claim the \$6,000 exemption under § 26-51-307(a) if receiving retirement benefits from other sources. The bill is effective for tax years beginning on or after January 1, 2017.

Revenue Impact :

\$14.4M per year reduction to General Revenue

Taxpayer Impact :

A taxpayer receiving retirement and survivor benefits as defined in this bill will receive a total income tax exemption for such income. A taxpayer who claims the uniformed services retirement exemption may also claim the \$6,000 exemption for any retirement benefits from other sources. A taxpayer will need to maintain records for their retirement income and claim the appropriate exemptions.

Resources Required :

Update computer programs, tax forms, and instructions.

Time Required :

Adequate time is provided

Procedural Changes :

Tax forms and instructions will need to be updated and Department employees will need to be trained about the changing exemption amounts for processing returns. The tax community will need to be educated as well.

Other Comments :

Concerns with this bill in its current form:

1. Page 3, Lines 3-6, as it is drafted, is not clear if the exempted retirement benefits received by a member of the uniformed services are exclusive to benefits that are funded by the uniformed services or if the exemption would also apply to retirement benefits from other sources. Without additional language to confirm this understanding, the revenue impact

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would be much larger.

2. HB1003 does not allow taxpayers to claim the up to \$6,000 exemption on other retirement income. SB13 does allow taxpayers to claim the up to \$6,000 exemption on other retirement income. The revenue impact of this difference is approximately \$1M.

Legal Analysis :

SB13 will exempt from Arkansas Income Tax the retirement benefits or survivor benefits based on the retirement of a member of the uniformed services by amending § 26-51-307. If an individual's military retirement or survivor benefit payments are exempt from income tax, SB13 also allows the first \$6,000 of any other retirement payment to be exempted under the existing § 26-51-307(a).