

Department of Finance and Administration

Legislative Impact Statement

Bill: SB224 [REVISED IMPACT STATEMENT 3/4/15]
Bill Subtitle: TO PHASE IN AN INCOME TAX EXEMPTION FOR RETIREMENT BENEFITS RECEIVED FOR SERVICE IN THE ARMED FORCES.

Basic Change : Sponsor: Senator Irvin

SB224 provides an income tax exemption for retirement benefits received by Arkansas resident military retirees. The exemption is phased in and increases the current \$6,000 exemption for retirement benefits due to military service to \$12,000 for tax years beginning in 2015, \$20,000 for tax years beginning in 2016, \$28,000 for tax years beginning in 2017, and exempts all military retirement benefits for tax years beginning in 2018 and after. Armed forces is defined as the U.S. Air Force, Army, Navy, Coast Guard, Marine Corps, National Guard of any state, reserve components of any of the armed forces listed, and any other branch of the military and naval forces or auxiliaries.

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 :

A taxpayer receiving retirement benefits from the armed forces will have an increased exemption beginning with tax year 2015. All retirement 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.

Resources Required :

Update computer programs, tax forms, and instructions.

Time Required :

Adequate time is provided.

Procedural Changes :

Tax forms and instruction booklets will need to be updated and employees will need to be trained about the changing exemption amounts for processing returns.

Other Comments :

Note: Page 2, Line 33 of bill has the 65 and over credit as \$20. Currently this is \$26.

Legal Analysis :

SB224 amends § 26-51-307 in order to phase in an increase in the exemption from state income tax for income from retirement or disability benefits received from the armed forces. The current exemption amount of \$6,000 applicable to all other retirement or disability benefits income is increased to \$12,000 for tax year 2015; \$20,000 for tax year 2016; \$28,000 for tax year 2017; and the entire amount of armed forces retirement or disability income for tax years beginning on and after January 1, 2018. A few other minor changes are made throughout this code section for language cleanup purposes but have no substantive effect.