

Department of Finance and Administration

Legislative Impact Statement

Bill: SB577

Bill Subtitle: TO EXEMPT FROM INCOME TAX A LIMITED AMOUNT OF RETIREMENT BENEFITS RECEIVED FOR SERVICE IN THE ARMED FORCES.

Basic Change :

Senators J. English and J. Hendren

Current law exempts the first \$6,000 of retirement benefits. This bill increases the exemption for retirement benefits from the armed forces. The tax relief is phased in over 6 years as follows:

2013 - the first \$9,000;

2014 - the first \$14,000;

2015 - the first \$19,000;

2016 - the first \$24,000;

2017 - the first \$29,000;

2018 & after - the first \$40,000.

If taxpayer claims the military retirement exemption then they can't claim the regular retirement exemption or the IRA exemption. The taxpayer can claim the military retirement exemption and the "65 special" credit.

Revenue Impact :

FY2014 - \$3.2 m loss

FY2015 - \$8.4 m loss

FY2016 - \$13.2 m loss

FY2017 - \$14.4 m loss

FY2018 - \$15.5 m loss

FY2019 - \$16.9 m loss

Taxpayer Impact :

Taxpayers would need to document retirement benefits that are eligible for the exemption and retain records for six years.

Resources Required :

Computer program, tax forms and instructions must be updated. \$2,000 per year for FY2013 through FY2018.

Time Required :

Adequate time is provided.

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Procedural Changes :

Tax forms and instructions, computer programs, return processing and training procedures would need to be updated. Tax community will need to be informed of the change.

Other Comments :

None

Legal Analysis :

This bill increases the amount of the retirement benefits received by an Arkansas resident from the armed forces that are exempt from income tax over a six year period beginning with the tax year 2013. Retirement income received from the the Air Force, Army, or Navy of the United States, the National Guard of any state, and the reserve components of any of the branches listed qualify for the exemption. The exemption amount for 2013 is \$9,000; 2014 - \$14,000; 2015 - \$19,000; 2016 - \$24,000; 2017 - \$29,000, and for tax year 2018 and afterward, the exemption will be increased to \$40,000.

Under current law, all Arkansas taxpayers, including members of the armed services, are allowed an exemption for the first \$6,000 of retirement benefits. A taxpayer claiming the new increased exemption created by this bill will not also be eligible for the regular \$6,000 exemption.

The act is effective for tax years beginning on or after 1/1/13.