

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1108

Bill Subtitle: TO CREATE AN EXEMPTION FROM THE INCOME TAX FOR SERVICE PAY AND ALLOWANCES OF FOREIGN SERVICE PERSONNEL; AND TO REPEAL OBSOLETE PROVISIONS OF THE INCOME TAX LAWS.

Basic Change :

Sponsor: Rep. House

HB1108 creates an income tax exemption for service pay and allowances of foreign service personnel and repeals obsolete income tax provisions relating to compensation and benefits from military service. The bill will be effective for tax years beginning on or after January 1, 2019.

Revenue Impact :

FY 2020 - \$30,000 Reduction in State General Revenues

Taxpayer Impact :

Taxpayers who are foreign service officers and specialists will receive the benefits of extending the income tax exemption for military pay.

Resources Required :

Update computer programs, tax forms, and instructions.

Time Required :

Adequate time is provided.

Procedural Changes :

Computer programs, forms and instructions, and training manuals will need to be updated. Department employees will need to be educated as well as the tax community.

Other Comments :

Based upon the HR Fact Sheet from the Bureau of Human Resources as of September 30, 2017, there are 75,880 total U.S. State Department employees, 13,873 of those employees are foreign service specialists.

In Arkansas, we estimate there are 48 employees with total wages of \$3.6 million who are employed with the U.S. State Department. Applying the same percentage of foreign service personnel (18%) to Arkansas, it is estimated that nine employees earning a total of \$650,000 in wages. This income would be exempt under HB1108, which would result in an approximate revenue loss of \$30,000.

Legal Analysis :

The bill creates an income tax exemption for service pay and allowances of foreign service personnel by amending § 26-51-306. The title of this code section may need to be revised to read,

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"Compensation and benefits from military service *and foreign service*". The bill defines "foreign service personnel" as a person employed by the U.S. State Department in a position of a foreign service officer or specialist and resides out of state for more than one hundred eighty (180) days in the calendar year. The section does not exempt from taxation income from sources separate from the military service or foreign service pay and allowances. The bill also repeals subparts of § 26-51-306 which are made obsolete by the enactment of this bill.