

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1032

Bill Subtitle: TO AMEND THE INCOME TAX ACT OF 1929 TO ALLOW A TAXPAYER RECEIVING MILITARY RETIREMENT OR SURVIVOR BENEFITS TO RECEIVE THE FULL AMOUNT OF THE INCOME TAX EXEMPTION FOR RETIREMENT BENEFITS.

Basic Change :

Sponsor: Rep. Jett

HB1032 would amend existing Arkansas law to allow a taxpayer claiming an exemption of less than \$6,000 under § 26-51-307(e) on military retirement or survivor benefits to also be able to exempt retirement benefits received from non-military sources under § 26-51-307(a) in an amount equal to the difference between the exemption claimed under subsection § 26-51-307(e) and \$6,000. Current Arkansas law does not allow a taxpayer to claim both exemptions.

This bill would be effective for tax years beginning on and after January 1, 2022.

Revenue Impact :

FY2022 - \$34,000 reduction in State General Revenue.

FY2023 - \$68,000 reduction in State General Revenue.

Taxpayer Impact :

A Taxpayer with military retirement or survivor benefit income of less than \$6,000 would be able to claim a total retirement exemption up to \$6,000 if the taxpayer has additional non-military retirement income.

Resources Required :

Computer programs, tax forms, and instructions will need to be updated.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Department employees will need to be educated as well as the tax community.

Other Comments :

HB1032 would affect approximately 700-800 taxpayers with military retirement income less than \$6,000. Under current law, a taxpayer with \$3,000 in military retirement and \$3,000 in non-military retirement is only able to claim a \$3,000 exemption toward his or her retirement income. If the taxpayer claimed the military retirement income as exempt, the taxpayer's non-military retirement income of \$3,000 would be subject to tax. This results in a higher tax burden versus a different taxpayer that has \$6,000 of non-military retirement income who is allowed a full \$6,000 exemption. HB1032 would amend Arkansas law to allow both taxpayers to have the full benefit of the \$6,000 exemption amount.

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Legal Analysis :

None.