

South Carolina Board of Economic Advisors

Statement of Estimated State Revenue Impact

Date: March 8, 2011

Bill Number: S.B. 179

Author: Rose

Committee Requesting Impact: Senate Finance Committee

Bill Summary

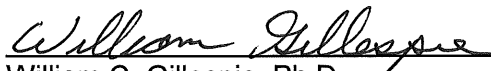
A bill to amend Chapter 6, Title 12 of the 1976 Code, relating to income taxation, by adding Section 12-6-1205 to provide that retirement compensation received for military service to the United States of America is exempt from income taxation.

REVENUE IMPACT ^{1/}

This bill would reduce General Fund individual income tax revenue by an estimated \$25,173,667 in FY2011-12.

Explanation

This bill adds Section 12-6-1205 to allow all retirement compensation received by an individual taxpayer for military service to the United States of America to be exempt from state income tax. Based on the latest data from the United States Department of Defense, there are currently 55,433 military retirees in South Carolina receiving \$1,235,712,000 in annual military retirement benefits. This equates to an average annual retirement benefit of \$22,292 for each military retiree in the state. Of this amount, there are currently 25,013 military retirees over 65 years of age in the state receiving an average military retirement benefit of \$24,091 and 30,528 military retirees under 65 years of age in the state receiving an average military retirement benefit of \$20,813. Pursuant to Section 12-6-1170(B), a taxpayer may deduct up to \$15,000 from taxable income in the year the taxpayer attains the age of 65 years. Adjusting these figures to FY2011-12 levels, multiplying 26,858 military retirees over 65 years of age by an average military retirement benefit of \$27,547 less a \$15,000 annual deduction, a \$3,650 personal exemption, and a \$5,700 standard deduction from taxable income, and applying an average tax rate of 5.8% yields a reduction of General Fund individual income tax revenue of an estimated \$4,980,172 in FY2011-12. Also, pursuant to Section 12-6-1170(A)(1), a taxpayer may deduct up to \$3,000 from taxable income in the years before the taxpayer attains the age of 65 years. Adjusting these figures to FY2011-12 levels, multiplying 31,528 military retirees under 65 years of age by an average military retirement benefit of \$23,393 less a \$3,000 annual deduction, a \$3,650 personal exemption, and a \$5,700 standard deduction from taxable income, and applying an average tax rate of 5.8% yields a reduction of General Fund individual income tax revenue of an estimated \$20,193,495 in FY2011-12. In total, exempting the military benefits attributable to active duty service in the military would reduce General Fund individual income tax revenue by an estimated \$25,173,667 in FY2011-12. This act takes effect upon approval by the Governor and applies for taxable years beginning after 2010.



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^{1/} This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.