

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
FISCAL IMPACT STATEMENT**

LS 6692

BILL NUMBER: HB 1280

NOTE PREPARED: Dec 19, 2024

BILL AMENDED:

SUBJECT: Taxation of Military Income.

FIRST AUTHOR: Rep. Gore

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill exempts military pay for members of the United States Public Health Service (USPHS) Commissioned Corps and the National Oceanic and Atmospheric Administration (NOAA) Commissioned Officer Corps from the individual income tax. It exempts military pay earned by members of an active component of the USPHS Commissioned Corps and the NOAA Commissioned Officer Corps from the individual income tax. It adds members of the USPHS Commissioned Corps and the NOAA Commissioned Officer Corps for purposes of eligibility for the income tax deduction for income from military retirement or survivor's benefits.

Effective Date: January 1, 2025 (retroactive).

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise tax forms, instructions, and computer programs. The DOR's current level of resources should be sufficient to implement the tax provisions outlined in the bill.

Explanation of State Revenues: The bill extends the current military income tax exemption and military retirement income tax exemption to the income earned from individuals' service in the USPHS Commissioned Corps and NOAA Commissioned Officer Corps. The provisions in the bill could reduce state income tax revenues by \$10,000 to \$30,000 annually beginning in FY 2026. The fiscal impact could begin in FY 2025 if the taxpayers adjust their withholding in the first half of 2025.

Additional Information - Current statute provides that all military service income is exempt from state income tax for active duty service members, members of the Indiana National Guard, and members of a reserve unit of the armed forces. Combat pay is not eligible for a deduction because it is not taxed at the federal or state level. It also provides a full income tax deduction for military retirement income or survivor's benefits received by a taxpayer. The bill extends the above tax benefits to the individual receiving pay and benefits from the USPHS Commissioned Corps and NOAA Commissioned Officer Corps.

United States Public Health Service (USPHS): The bill provides that "qualified service income" means wages that are paid to an individual employed by the USPHS Commissioned Corps. It provides an income tax

exemption for wages, retirement income, and survivor's benefits paid by the USPHS Commissioned Corps. The USPHS Commissioned Corps is one of the nation's uniformed services. Officers of the USPHS serve in agencies across the government as physicians, nurses, dentists, veterinarians, scientists, engineers and other professionals. Currently there are more than 6,000 professionals serving in 11 professional categories at about 800 locations in the U.S. and around the world. Currently there are 3 professionals serving in Indiana that will qualify for the income tax exemption on the wages paid to them by the USPHS Commissioned Corps. The number of Indiana residents receiving retirement income or survivor's benefit is not known but is estimated to be small. Under the bill, all retirement income or survivor's benefit received by any Indiana resident from the USPHS Commissioned Corps will be exempt from Indiana income tax.

NOAA Commissioned Officer Corps (NOAA Corps): The bill provides an income tax exemption for wages, retirement income, and survivor's benefits received by an Indiana taxpayer and paid by the NOAA Corps officers. The NOAA Corps is one of the nation's eight uniformed services. NOAA Corps officers are an integral part of the National Oceanic and Atmospheric Administration (NOAA), an agency of the U.S. Department of Commerce. It has about 330 officers that support nearly all of NOAA's programs and missions. To the extent that some of these officers are located in Indiana, exempting their income from Indiana adjusted gross income will result in indeterminable but minimal reduction in state income tax revenues. It also provides that all retirement income or survivor's benefits received by any Indiana resident from the NOAA Corps will be exempt from Indiana income tax.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the bill's provisions will decrease taxable income, counties imposing a local income tax (LIT) could potentially experience a decrease in revenue from this tax. Any impact is estimated to be minimal.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Local units that receive a local income tax distribution.

Information Sources: United States Public Health Service (USPHS), <https://www.usphs.gov/about-us>; NOAA Commissioned Officer Corps <https://www.oma.noaa.gov/noaa-corps>.

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