LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington St., Suite 301
Indianapolis, IN 46204
(317) 233-0696
iga.in.gov

FISCAL IMPACT STATEMENT

LS 6056 | **NOTE PREPARED:** Sep 28, 2020
BILL NUMBER: SB 18 | **BILL AMENDED:**

SUBJECT: Disabled Veteran Renter's Deduction.

FIRST AUTHOR: Sen. Glick | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: The bill provides an income tax deduction, in addition to the current renter's deduction, to a disabled veteran who rents a dwelling as a principal place of residence. It provides that the additional deduction is equal to the amount the individual is entitled to deduct under the current renter's deduction multiplied by the individual's service connected disability rating.

Effective Date: January 1, 2022.

Explanation of State Expenditures: *Department of State Revenue (DOR)*: The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the changes to the renter's deduction. The DOR's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: The bill establishes an Adjusted Gross Income (AGI) Tax deduction. The deduction is effective beginning in tax year 2022, so the revenue impact will likely begin in FY 2023. The deduction could reduce state General Fund revenue by an estimated $0.4 M to $0.9 M per year beginning in FY 2023.

The bill provides a tax deduction to an Indiana taxpayer who (1) is a disabled veteran, and (2) rents a dwelling for use as the individual's principal place of residence. It provides that the deduction amount is calculated based on the taxpayer's disability rating determined by the U.S. Department of Veterans Affairs. It provides the formula for calculating the deduction. The maximum deduction is equal to $3,000.

Additional Information - The estimates are based on disability compensation and disability rating information published by the U.S. Department of Veterans Affairs. There are about 89,000 veterans in Indiana that receive disability compensation. Indiana income tax return data was used to assign a low and high level of renters among the veteran population. The lower bound assumes that around 11% of veterans rent their principal place of residence. This level is based on a ratio derived from taxpayers who currently claim the military income deduction. The lower bound also assumes a lower average disability rating. The upper bound assumes that 21% of veterans are renters. This is based on the share of Indiana taxpayers who currently claim the renter's deduction.

Current federal tax law exempts the disability compensation received by veterans from adjusted gross income. This exemption also carries into Indiana adjusted gross income. The analysis assumes that the veterans receiving disability compensation also receive military service income or income from other sources. The additional renter's deduction will reduce the income currently taxable under Indiana tax law.

The bill defines a disabled veteran as an individual that served in the military, received an honorable discharge, and has a total service related disability of 10% or more. These factors could minimally reduce the estimated fiscal impact.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the deduction will decrease taxable income, counties imposing local income taxes could potentially experience a decrease in revenue. Based on the current average local income tax rate of 1.58%, local income tax collections on a statewide basis could potentially be reduced by $0.2 M to $0.4 M annually.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Local units.

Information Sources: Veteran's Compensation Data, U.S. Department of Veterans Affairs; LSA Income Tax Database.

Fiscal Analyst: Olivia Smith, 317-232-9869.