

**COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT  
LEGISLATIVE RESEARCH COMMISSION  
2017 REGULAR SESSION**

**MEASURE**

2017 BR NUMBER **1565**

**HOUSE** BILL NUMBER **405**

RESOLUTION NUMBER \_\_\_\_\_

AMENDMENT NUMBER \_\_\_\_\_

**SUBJECT/TITLE** **An ACT relating to an exemption of income taxation for military pensions.**

**SPONSOR** **Representative Thomas**

**NOTE SUMMARY**

FISCAL ANALYSIS:  IMPACT       NO IMPACT       INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT:  STATE       LOCAL       FEDERAL

BUDGET UNIT(S) IMPACT: \_\_\_\_\_

FUND(S) IMPACT:  GENERAL  ROAD  FEDERAL  RESTRICTED AGENCY \_\_\_\_\_  OTHER

**FISCAL SUMMARY**

FISCAL ESTIMATES	2016-2017	2017-2018	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES			(\$3,400,000)
EXPENDITURES			
NET EFFECT			(\$3,400,000)

( ) indicates a decrease/negative

**MEASURE'S PURPOSE:** HB 405 proposes an income tax exemption for pensions of retired members of the United States Armed Forces, the reserves of the United States Armed Forces, and the National Guard. The purpose of the exemption is to encourage military personnel to remain residents of Kentucky after retirement.

**PROVISIONS/MECHANICS:** HB 405 amends KRS 141.010 to exclude military pension plan distributions from the adjusted gross income reported for Kentucky Income Tax. The exclusion pertains to taxable years beginning January 1, 2018, but ending before January 1, 2022. The amendment also includes the purpose for the exclusion and adds reporting requirements for the Department of Revenue.

Sections 2 through 8 contain amendments to various sections in KRS Chapters 131 and 141 to include the reporting requirements of the Department of Revenue and to make conforming changes.

**FISCAL EXPLANATION:** HB 405 is expected to have a negative impact. Currently, retirement income is excluded from the adjusted gross income up to \$41,110. Any retirement distributions received above that amount are taxed based on the applicable income tax bracket.

Based on data from the Department of Defense, military retirees who reach a higher rank will receive an annual pension income above the \$41,110 that is currently excluded. Those rankings consist of Chief of Staff, Admiral, General, Vice Admiral, Brigadier General, Colonel, Captain, Lieutenant Colonel, Commander, Major, and Chief Warrant Officer. Enlisted persons who serve more than 20 years may also exceed \$41,110 in pension income.

In looking at the national data, 73 percent of military retirees have a pension income above \$41,110. The estimated average yearly pension income of those with incomes above \$41,110 is \$56,000. The estimated number of retired military officers in Kentucky is 3,863. Therefore, an estimate of the additional amount of yearly pension income for all Kentucky military officers that would be excluded by HB 405 to be \$57,945,000. Multiplied by the effective tax rate of 5.8 percent, the estimated fiscal impact of HB 405 is (\$3,360,810.)

**DATA SOURCE(S): LRC Staff, LRC Economist, Department of Defense Statistical Report on the Military Retirement System FY 2015**

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