



NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

Legislative Fiscal Note

Short Title: Eliminate Income Tax for Military Retirees.
Bill Number: House Bill 83 (Third Edition)
Sponsor(s): Representatives Szoka, Bradford, Bell, and Wheatley

SUMMARY TABLE

	FISCAL IMPACT OF PCS H.B. 83, V.3 (\$ in millions)				
	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>
State Impact					
General Fund Revenue	(30.8)	(34.9)	(39.4)	(45.2)	(50.2)
Less Expenditures	-	-	-	-	-
General Fund Impact	(30.8)	(34.9)	(39.4)	(45.2)	(50.2)
NET STATE IMPACT	(\$30.8)	(\$34.9)	(\$39.4)	(\$45.2)	(\$50.2)

FISCAL IMPACT SUMMARY

HB 83 allows a deduction for military retirement benefits. Benefits paid to retirees who had earned five years of creditable service in the military retirement system as of August 12, 1989 and their survivor beneficiaries are already deductible and may not be deducted twice.

The deduction would be effective for taxable years beginning on or after January 1, 2021.

FISCAL ANALYSIS

Under the "Bailey Settlement," military retirement income that is based on military service that includes at least five years of creditable service earned prior to August 1989 is exempt from North Carolina income tax. This bill exempts military retirement income that does not qualify for exemption under the "Bailey Settlement" for retirees with at least 20 years of service and their survivor beneficiaries.

To determine the amount of military retirement income that is not eligible for exemption under the "Bailey Settlement," Fiscal Research obtained 2020 data on the total amount of military retirement benefits paid to North Carolina residents who first earned service after 1984 from the U.S. Department of Defense (DOD). This analysis assumes that all military retirement benefits based on service earned after 1984 are subject to taxation under current law. Projections of benefit payments were based on the growth predicted in the FY 2018 Valuation of the Military Retirement System.

The share of pension income that is subject to State income tax will increase each year because new retirees are less likely to meet the criteria required for exemption under the “Bailey Settlement.” To determine this share, Fiscal Research used data provided by DOD about retirees’ average years of service and year of retirement to approximate first year of employment for current retirees. This was used to approximate the share of benefit payments that would be eligible for the Bailey exemption each year, assuming no breaks in service during the first five years of employment. The share of benefits that would not be eligible for the Bailey exemption was multiplied by the total amount of benefits to determine the amount of income that is taxable under current law. The fiscal impact was calculated by multiplying this amount by the estimated average effective tax rate applicable to filers who received income from the military retirement system. Because the military retirement system does not automatically withhold state income tax, the impact for each fiscal year is assumed to equal the impact of the tax year ending in December.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

U.S. Department of Defense Office of the Actuary, FRD Individual Income Tax Microsimulation Model

LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

CONTACT INFORMATION

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

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