



**SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE**  
**STATEMENT OF ESTIMATED FISCAL IMPACT**  
**(803)734-3780 • RFA.SC.GOV/IMPACTS**

*This fiscal impact statement is produced in compliance with the South Carolina Code of Laws and House and Senate rules. The focus of the analysis is on governmental expenditure and revenue impacts and may not provide a comprehensive summary of the legislation.*

---

|                        |  |                                |
|------------------------|--|--------------------------------|
| <b>Bill Number:</b>    | H. 3247  | Introduced on January 12, 2021 |
| <b>Author:</b>         | G.M. Smith   |                                |
| <b>Subject:</b>        | Workforce Enhancement and Military Recognition Act |                                |
| <b>Requestor:</b>      | House Ways and Means                               |                                |
| <b>RFA Analyst(s):</b> | Jolliff  |                                |
| <b>Impact Date:</b>    | March 17, 2021                                     |                                |

---

### **Fiscal Impact Summary**

This bill would increase the amount of the current deductions for military retirement income. The increase in the deduction is phased in from tax year 2022 through 2027. We anticipate that the Department of Revenue (DOR) will implement the change with existing staff and resources. Therefore, the bill is not expected to impact expenditures for the agency.

The bill will decrease General Fund individual income tax revenue by a total of \$2,963,000 in FY 2022-23, \$5,153,000 in FY 2023-24, \$6,842,000 in FY 2024-25, \$8,505,000 in FY 2025-26, \$10,143,000 in FY 2026-27, \$11,759,000 in FY 2027-28, and \$12,889,000 in FY 2028-29 and thereafter.

### **Explanation of Fiscal Impact**

#### **Introduced on January 12, 2021**

##### **State Expenditure**

This bill would increase the current income tax deductions for military retirement income. We anticipate that DOR will implement the changes with existing staff and resources. Therefore, the bill is not expected to impact expenditures for the agency.

##### **State Revenue**

This bill would amend the military retirement income deductions in Section 12-6-1171 by increasing the deduction amounts each year from tax year 2022 through 2027. Currently, taxpayers are allowed an individual income tax deduction of up to \$17,500 of earned income for taxpayers under age 65 that receive military retirement income for tax year 2021. The deduction is equal to the amount of military retirement income, not to exceed \$17,500. When a taxpayer reaches age 65, the taxpayer may deduct up to \$30,000 of military retirement income.

The bill would increase the current allowable deduction amount for earned income of individuals under age 65 of \$17,500 by \$2,900 beginning in tax year 2022 through 2027. Beginning in tax year 2027, the amount of the deduction is expanded to the full amount of earned income. For individuals 65 and over, the current \$30,000 deduction is increased by \$3,000 per year beginning in tax year 2022 through 2027. Beginning in tax year 2028, the deduction is the full amount of military retirement income for taxpayers 65 and over.

For this analysis, we used the latest data from the Department of Defense, Office of the Actuary as of September 2020 provided by the SC Department of Veterans Affairs. Since Section 12-6-1171 allows different amounts of retirement income deductions by taxpayers depending on their age, we used these data to segregate taxpayers with military retirement income into two categories: under age 65 and age 65 and older.

Table 1 reports the estimated revenue impact of increasing the earned income deduction for military retirement income for taxpayers under age 65 beginning in tax year 2022. By full implementation, the deduction for taxpayers under 65 will reduce General Fund individual income tax revenue by up to \$9,037,000 in FY 2028-29. Because a taxpayer under age 65 must have earned income equal to the amount of military retirement, the deduction may be less than the full amount estimated, particularly in FY 2028-29 when the military retirement income deduction amount is only limited by the amount of earned income. However, the income tax returns do not provide sufficient information to determine the amount that will not be deducted. Therefore, we have included the maximum potential deduction.

**Table 1: Tax Revenue Reduction from Phased-in Deduction for Military Retirees Under Age 65**

| <b>Fiscal Year</b> | <b>Total Number of Active Duty Military Retirees</b> | <b>Maximum Earned Income Deduction Amount</b> | <b>Annual Revenue Reduction</b> | <b>Annual Additional Revenue Reduction</b> |
|--------------------|--|---|---------------------------------|--|
| FY 2022-23         | 17,646   | \$20,400                                      | (\$1,475,000)                   |  |
| FY 2023-24         | 17,402   | \$23,300                                      | (\$2,910,000)                   | (\$1,435,000)                              |
| FY 2024-25         | 17,162   | \$26,200                                      | (\$4,305,000)                   | (\$1,395,000)                              |
| FY 2025-26         | 16,925   | \$29,100                                      | (\$5,661,000)                   | (\$1,356,000)                              |
| FY 2026-27         | 16,691   | \$32,000                                      | (\$6,978,000)                   | (\$1,317,000)                              |
| FY 2027-28         | 16,461   | \$34,900                                      | (\$8,258,000)                   | (\$1,280,000)                              |
| FY 2028-29         | 16,233   | all earned income                             | (\$9,037,000)                   | (\$779,000)                                |

Table 2 reports the estimated revenue impact of increasing the military retirement income deduction for taxpayers age 65 and over beginning in tax year 2022. By full implementation, the deduction for taxpayers age 65 and over will reduce General Fund individual income tax revenue by up to \$3,852,000 in FY 2028-29.

**Table 2: Tax Revenue Reduction from Phased-in Deduction for Military Retirees Age 65 and Older**

| <b>Fiscal Year</b> | <b>Total Number of Active Duty Military Retirees</b> | <b>Maximum Retirement Income Deduction Amount</b> | <b>Annual Revenue Reduction</b> | <b>Annual Additional Revenue Reduction</b> |
|--------------------|--|---|---------------------------------|--|
| FY 2022-23         | 19,959   | \$33,000  | (\$1,488,000)                   |  |
| FY 2023-24         | 20,316   | \$36,000  | (\$2,243,000)                   | (\$755,000)                                |
| FY 2024-25         | 20,680   | \$39,000  | (\$2,537,000)                   | (\$294,000)                                |
| FY 2025-26         | 21,051   | \$42,000  | (\$2,844,000)                   | (\$307,000)                                |
| FY 2026-27         | 21,428   | \$45,000  | (\$3,165,000)                   | (\$321,000)                                |
| FY 2027-28         | 21,812   | \$48,000  | (\$3,501,000)                   | (\$336,000)                                |
| FY 2028-29         | 22,203   | no limit  | (\$3,852,000)                   | (\$351,000)                                |

Combining the revenue impacts of the retirement income tax deduction for all military retirees, the bill will reduce General Fund individual income tax revenue by up to \$12,889,000 in FY 2028-29. The estimated impact by fiscal year is outlined in Table 3 below.

**Table 3: Summary of Tax Revenue Reduction from Phased-in Military Retirement Deductions**

| <b>Fiscal Year</b> | <b>Annual Revenue Reduction</b> | <b>Annual Additional Revenue Reduction</b> |
|--------------------|---------------------------------|--|
| FY 2022-23         | (\$2,963,000)                   |  |
| FY 2023-24         | (\$5,153,000)                   | (\$2,190,000)                              |
| FY 2024-25         | (\$6,842,000)                   | (\$1,689,000)                              |
| FY 2025-26         | (\$8,505,000)                   | (\$1,663,000)                              |
| FY 2026-27         | (\$10,143,000)                  | (\$1,638,000)                              |
| FY 2027-28         | (\$11,759,000)                  | (\$1,616,000)                              |
| FY 2028-29         | (\$12,889,000)                  | (\$1,130,000)                              |

**Local Expenditure**

N/A

**Local Revenue**

N/A

Frank A. Rainwater, Executive Director