STATE OF CONNECTICUT

QUI TRANSTULIT SUSTINET

House of Representatives

General Assembly

File No. 120

January Session, 2015

House Bill No. 6779

House of Representatives, March 19, 2015

The Committee on Veterans' Affairs reported through REP. HENNESSY of the 127th Dist., Chairperson of the Committee on the part of the House, that the bill ought to pass.

AN ACT INCREASING THE EXEMPTION FROM THE INCOME TAX FOR MILITARY RETIREMENT PAY.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. Subparagraph (B) of subdivision (20) of subsection (a) of section 12-701 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective from passage and applicable to taxable years commencing on or after January 1, 2015*):

(B) There shall be subtracted therefrom (i) to the extent properly includable in gross income for federal income tax purposes, any income with respect to which taxation by any state is prohibited by federal law, (ii) to the extent allowable under section 12-718, exempt dividends paid by a regulated investment company, (iii) the amount of any refund or credit for overpayment of income taxes imposed by this state, or any other state of the United States or a political subdivision thereof, or the District of Columbia, to the extent properly includable in gross income for federal income tax purposes, (iv) to the extent properly includable in gross income for federal income tax purposes and not otherwise subtracted from federal adjusted gross income pursuant to clause (x) of this subparagraph in computing Connecticut adjusted gross income, any tier 1 railroad retirement benefits, (v) to the extent any additional allowance for depreciation under Section 168(k) of the Internal Revenue Code, as provided by Section 101 of the Job Creation and Worker Assistance Act of 2002, for property placed in service after December 31, 2001, but prior to September 10, 2004, was added to federal adjusted gross income pursuant to subparagraph (A)(ix) of this subdivision in computing Connecticut adjusted gross income for a taxable year ending after December 31, 2001, twenty-five per cent of such additional allowance for depreciation in each of the four succeeding taxable years, (vi) to the extent properly includable in gross income for federal income tax purposes, any interest income from obligations issued by or on behalf of the state of Connecticut, any political subdivision thereof, or public instrumentality, state or local authority, district or similar public entity created under the laws of the state of Connecticut, (vii) to the extent properly includable in determining the net gain or loss from the sale or other disposition of capital assets for federal income tax purposes, any gain from the sale or exchange of obligations issued by or on behalf of the state of Connecticut, any political subdivision thereof, or public instrumentality, state or local authority, district or similar public entity created under the laws of the state of Connecticut, in the income year such gain was recognized, (viii) any interest on indebtedness incurred or continued to purchase or carry obligations or securities the interest on which is subject to tax under this chapter but exempt from federal income tax, to the extent that such interest on indebtedness is not deductible in determining federal adjusted gross income and is attributable to a trade or business carried on by such individual, (ix) ordinary and necessary expenses paid or incurred during the taxable year for the production or collection of income which is subject to taxation under this chapter but exempt from federal income tax, or the management, conservation or maintenance of property held for the production of such income, and the amortizable bond premium for the taxable year on any bond the interest on which is subject to tax under this chapter but exempt from federal income tax, to the extent that such expenses and premiums are not deductible in determining federal adjusted gross income and are attributable to a trade or business carried on by such individual, (x) (I) for a person who files a return under the federal income tax as an unmarried individual whose federal adjusted gross income for such taxable year is less than fifty thousand dollars, or as a married individual filing separately whose federal adjusted gross income for such taxable year is less than fifty thousand dollars, or for a husband and wife who file a return under the federal income tax as married individuals filing jointly whose federal adjusted gross income for such taxable year is less than sixty thousand dollars or a person who files a return under the federal income tax as a head of household whose federal adjusted gross income for such taxable year is less than sixty thousand dollars, an amount equal to the Social Security benefits includable for federal income tax purposes; and (II) for a person who files a return under the federal income tax as an unmarried individual whose federal adjusted gross income for such taxable year is fifty thousand dollars or more, or as a married individual filing separately whose federal adjusted gross income for such taxable year is fifty thousand dollars or more, or for a husband and wife who file a return under the federal income tax as married individuals filing jointly whose federal adjusted gross income from such taxable year is sixty thousand dollars or more or for a person who files a return under the federal income tax as a head of household whose federal adjusted gross income for such taxable year is sixty thousand dollars or more, an amount equal to the difference between the amount of Social Security benefits includable for federal income tax purposes and the lesser of twenty-five per cent of the Social Security benefits received during the taxable year, or twenty-five per cent of the excess described in Section 86(b)(1) of the Internal Revenue Code, (xi) to the extent properly includable in gross income for federal income tax purposes, any amount rebated to a taxpayer pursuant to section 12-746, (xii) to the extent properly includable in the gross income for federal income tax purposes of a designated beneficiary, any distribution to such beneficiary from any qualified state tuition program, as defined in Section 529(b) of the Internal Revenue Code, established and maintained by this state or any official, agency or instrumentality of the state, (xiii) to the extent allowable under section 12-701a, contributions to accounts established pursuant to any qualified state tuition program, as defined in Section 529(b) of the Internal Revenue Code, established and maintained by this state or any official, agency or instrumentality of the state, (xiv) to the extent properly includable in gross income for federal income tax purposes, the amount of any Holocaust victims' settlement payment received in the taxable year by a Holocaust victim, (xv) to the extent properly includable in gross income for federal income tax purposes of an account holder, as defined in section 31-51ww, interest earned on funds deposited in the individual development account, as defined in section 31-51ww, of such account holder, (xvi) to the extent properly includable in the gross income for federal income tax purposes of a designated beneficiary, as defined in section 3-123aa, interest, dividends or capital gains earned on contributions to accounts established for the designated beneficiary pursuant to the Connecticut Homecare Option Program for the Elderly established by sections 3-123aa to 3-123ff, inclusive, (xvii) to the extent properly included in gross income for federal income tax purposes, **[**fifty per cent of**]** the income received from the United States government as retirement pay for a retired member of (I) the Armed Forces of the United States, as defined in Section 101 of Title 10 of the United States Code, or (II) the National Guard, as defined in Section 101 of Title 10 of the United States Code, as follows: Fifty per cent of such income for the taxable year commencing January 1, 2015; sixty per cent of such income for the taxable year commencing January 1, 2016; seventy per cent of such income for the taxable year commencing January 1, 2017; eighty per cent of such income for the taxable year commencing January 1, 2018; ninety per cent of such income for the taxable year commencing January 1, 2019; and one hundred per cent of such income for taxable years commencing on or after January 1, 2020, (xviii) to the extent properly includable in gross income for federal income tax purposes for the taxable year, any income from the discharge of indebtedness in connection with any reacquisition, after December 31, 2008, and before January 1, 2011, of an applicable debt instrument or instruments, as those terms are defined in Section 108 of the Internal Revenue Code, as amended by Section 1231 of the American Recovery and Reinvestment Act of 2009, to the extent any such income was added to federal adjusted gross income pursuant to subparagraph (A)(x) of this subdivision in computing Connecticut adjusted gross income for a preceding taxable year, and (xix) to the extent not deductible in determining federal adjusted gross income, the amount of any contribution to a manufacturing reinvestment account established pursuant to section 32-9zz in the taxable year that such contribution is made.

Sec. 2. Subparagraph (B) of subdivision (20) of subsection (a) of section 12-701 of the general statutes, as amended by section 50 of public act 14-47, is repealed and the following is substituted in lieu thereof (*Effective July 1, 2015, and applicable to taxable years commencing on or after January 1, 2015*):

(B) There shall be subtracted therefrom (i) to the extent properly includable in gross income for federal income tax purposes, any income with respect to which taxation by any state is prohibited by federal law, (ii) to the extent allowable under section 12-718, exempt dividends paid by a regulated investment company, (iii) the amount of any refund or credit for overpayment of income taxes imposed by this state, or any other state of the United States or a political subdivision thereof, or the District of Columbia, to the extent properly includable in gross income for federal income tax purposes, (iv) to the extent properly includable in gross income for federal income tax purposes and not otherwise subtracted from federal adjusted gross income pursuant to clause (x) of this subparagraph in computing Connecticut adjusted gross income, any tier 1 railroad retirement benefits, (v) to the extent any additional allowance for depreciation under Section 168(k) of the Internal Revenue Code, as provided by Section 101 of the Job Creation and Worker Assistance Act of 2002, for property placed in service after December 31, 2001, but prior to September 10, 2004, was added to federal adjusted gross income pursuant to subparagraph (A)(ix) of this subdivision in computing Connecticut adjusted gross income for a taxable year ending after December 31, 2001, twenty-five per cent of such additional allowance for depreciation in each of the four succeeding taxable years, (vi) to the extent properly includable in gross income for federal income tax purposes, any interest income from obligations issued by or on behalf of the state of Connecticut, any political subdivision thereof, or public instrumentality, state or local authority, district or similar public entity created under the laws of the state of Connecticut, (vii) to the extent properly includable in determining the net gain or loss from the sale or other disposition of capital assets for federal income tax purposes, any gain from the sale or exchange of obligations issued by or on behalf of the state of Connecticut, any political subdivision thereof, or public instrumentality, state or local authority, district or similar public entity created under the laws of the state of Connecticut, in the income year such gain was recognized, (viii) any interest on indebtedness incurred or continued to purchase or carry obligations or securities the interest on which is subject to tax under this chapter but exempt from federal income tax, to the extent that such interest on indebtedness is not deductible in determining federal adjusted gross income and is attributable to a trade or business carried on by such individual, (ix) ordinary and necessary expenses paid or incurred during the taxable year for the production or collection of income which is subject to taxation under this chapter but exempt from federal income tax, or the management, conservation or maintenance of property held for the production of such income, and the amortizable bond premium for the taxable year on any bond the interest on which is subject to tax under this chapter but exempt from federal income tax, to the extent that such expenses and premiums are not deductible in determining federal adjusted gross income and are attributable to a trade or business carried on by such individual, (x) (I) for a person who files a return under the federal income tax as an unmarried individual whose federal adjusted gross income for such taxable year is less than fifty thousand dollars, or as a married individual filing separately whose federal adjusted gross income for such taxable year is less than fifty thousand dollars, or for a husband and wife who file a return under the federal income tax as married individuals filing jointly whose federal adjusted gross income for such taxable year is less than sixty thousand dollars or a person who files a return under the federal income tax as a head of household whose federal adjusted gross income for such taxable year is less than sixty thousand dollars, an amount equal to the Social Security benefits includable for federal income tax purposes; and (II) for a person who files a return under the federal income tax as an unmarried individual whose federal adjusted gross income for such taxable year is fifty thousand dollars or more, or as a married individual filing separately whose federal adjusted gross income for such taxable year is fifty thousand dollars or more, or for a husband and wife who file a return under the federal income tax as married individuals filing jointly whose federal adjusted gross income from such taxable year is sixty thousand dollars or more or for a person who files a return under the federal income tax as a head of household whose federal adjusted gross income for such taxable year is sixty thousand dollars or more, an amount equal to the difference between the amount of Social Security benefits includable for federal income tax purposes and the lesser of twenty-five per cent of the Social Security benefits received during the taxable year, or twenty-five per cent of the excess described in Section 86(b)(1) of the Internal Revenue Code, (xi) to the extent properly includable in gross income for federal income tax purposes, any amount rebated to a taxpayer pursuant to section 12-746, (xii) to the extent properly includable in the gross income for federal income tax purposes of a designated beneficiary, any distribution to such beneficiary from any qualified state tuition program, as defined in Section 529(b) of the Internal Revenue Code, established and maintained by this state or any official, agency or instrumentality of the state, (xiii) to the extent allowable under section 12-701a, contributions to accounts established pursuant to any qualified state tuition program, as defined in Section 529(b) of the Internal Revenue Code, established and maintained by this state or any official, agency or instrumentality of the state, (xiv) to the extent properly includable in gross income for federal income tax purposes, the amount of any Holocaust victims' settlement payment received in the taxable year by a Holocaust victim, (xv) to the extent properly includable in gross income for federal income tax purposes of an account holder, as defined in section 31-51ww, interest earned on funds deposited in the individual development account, as defined in section 31-51ww, of such account holder, (xvi) to the extent properly includable in the gross income for federal income tax purposes of a designated beneficiary, as defined in section 3-123aa, interest, dividends or capital gains earned on contributions to accounts established for the designated beneficiary pursuant to the Connecticut Homecare Option Program for the Elderly established by sections 3-123aa to 3-123ff, inclusive, (xvii) to the extent properly includable in gross income for federal income tax purposes, **[**fifty per cent of**]** the income received from the United States government as retirement pay for a retired member of (I) the Armed Forces of the United States, as defined in Section 101 of Title 10 of the United States Code, or (II) the National Guard, as defined in Section 101 of Title 10 of the United States Code, as follows: Fifty per cent of such income for the taxable year commencing January 1, 2015; sixty per cent of such income for the taxable year commencing January 1, 2016; seventy per cent of such income for the taxable year commencing January 1, 2017; eighty per cent of such income for the taxable year commencing January 1, 2018; ninety per cent of such income for the taxable year commencing January 1, 2019; and one hundred per cent of such income for taxable years commencing on or after January 1, 2020, (xviii) to the extent properly includable in gross income for federal income tax purposes for the taxable year, any income from the discharge of indebtedness in connection with any reacquisition, after December 31, 2008, and before January 1, 2011, of an applicable debt instrument or instruments, as those terms are defined in Section 108 of the Internal Revenue Code, as amended by Section 1231 of the American Recovery and Reinvestment Act of 2009, to the extent any such income was added to federal adjusted gross income pursuant to subparagraph (A)(x) of this subdivision in computing Connecticut adjusted gross income for a preceding taxable year, (xix) to the extent not deductible in determining federal adjusted gross income, the amount of any contribution to a manufacturing reinvestment account established pursuant to section 32-9zz in the taxable year that such contribution is made, and (xx) to the extent properly includable in gross income for federal income tax purposes, for the taxable year commencing January 1, 2015, ten per cent of the income received from the state teachers' retirement system, for the taxable year commencing January 1, 2016, twenty-five per cent of the income received from the state teachers' retirement system, and for the taxable year commencing January 1, 2017, and each taxable year thereafter, fifty per cent of the income received from the state teachers' retirement system.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*from passage and applicable to taxable years commencing on or after January 1, 2015*	12-701(a)(20)(B)
Sec. 2	*July 1, 2015, and applicable to taxable years commencing on or after January 1, 2015*	12-701(a)(20)(B)

VA *Joint Favorable*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 16 $	FY 17 $
Revenue Serv., Dept.	GF - Revenue Loss	400,000	1,200,000

Municipal Impact: None

Explanation

The bill, which increases the state income tax exemption for military retirement pay from 50% to 100% in 10% increments from income year 2016 to income year 2020, results in a revenue loss of $400,000 in FY 16 and $1.2 million in FY 17. The estimate is lower in FY 16 because the figure represents only six months of the policy (January 2016-June 2016).

The fully annualized revenue loss is $4.0 million beginning in FY 21.

The Out Years

State Impact:

Agency Affected	Fund-Effect	FY 18 $	FY 19 $	FY 20 $
Revenue Serv., Dept.	GF - Revenue Loss	2,000,000	2,800,000	3,600,000

Municipal Impact: None

Sources: Department of Revenue Services Fiscal Year 2013-2014 Annual Report

OLR Bill Analysis
HB 6779

AN ACT INCREASING THE EXEMPTION FROM THE INCOME TAX FOR MILITARY RETIREMENT PAY.

SUMMARY:

This bill gradually increases the 50% state income tax exemption for federally taxable military retirement pay, by 10% annually, until it is fully exempt in 2020. Specifically, it requires the following exemption percentages for the corresponding taxable years: (1) 60% for 2016, (2) 70% for 2017, (3) 80% for 2018, (4) 90% for 2019, and (5) 100% for 2020 and annually thereafter.

The exemption applies to federal retirement pay for retired members of the U. S. Army, Navy, Air Force, Marine Corps, Coast Guard, and Army and Air National Guard.

EFFECTIVE DATE: Upon passage and applicable to taxable years beginning on or after January 1, 2015.

BACKGROUND

Related Bill

The Veterans' Affairs Committee favorably reported SB 520, which fully exempts federally taxable military retirement pay from the state income tax.

COMMITTEE ACTION

Veterans' Affairs Committee

Joint Favorable
Yea 14 Nay 0 (03/03/2015)