



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:

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2 section 12-701 of the general statutes is repealed and the following is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

5 (B) There shall be subtracted therefrom (i) to the extent properly
6 includable in gross income for federal income tax purposes, any
7 income with respect to which taxation by any state is prohibited by
8 federal law, (ii) to the extent allowable under section 12-718, exempt
9 dividends paid by a regulated investment company, (iii) the amount of
10 any refund or credit for overpayment of income taxes imposed by this
11 state, or any other state of the United States or a political subdivision
12 thereof, or the District of Columbia, to the extent properly includable
13 in gross income for federal income tax purposes, (iv) to the extent
14 properly includable in gross income for federal income tax purposes

15 and not otherwise subtracted from federal adjusted gross income
16 pursuant to clause (x) of this subparagraph in computing Connecticut
17 adjusted gross income, any tier 1 railroad retirement benefits, (v) to the
18 extent any additional allowance for depreciation under Section 168(k)
19 of the Internal Revenue Code, as provided by Section 101 of the Job
20 Creation and Worker Assistance Act of 2002, for property placed in
21 service after December 31, 2001, but prior to September 10, 2004, was
22 added to federal adjusted gross income pursuant to subparagraph
23 (A)(ix) of this subdivision in computing Connecticut adjusted gross
24 income for a taxable year ending after December 31, 2001, twenty-five
25 per cent of such additional allowance for depreciation in each of the
26 four succeeding taxable years, (vi) to the extent properly includable in
27 gross income for federal income tax purposes, any interest income
28 from obligations issued by or on behalf of the state of Connecticut, any
29 political subdivision thereof, or public instrumentality, state or local
30 authority, district or similar public entity created under the laws of the
31 state of Connecticut, (vii) to the extent properly includable in
32 determining the net gain or loss from the sale or other disposition of
33 capital assets for federal income tax purposes, any gain from the sale
34 or exchange of obligations issued by or on behalf of the state of
35 Connecticut, any political subdivision thereof, or public
36 instrumentality, state or local authority, district or similar public entity
37 created under the laws of the state of Connecticut, in the income year
38 such gain was recognized, (viii) any interest on indebtedness incurred
39 or continued to purchase or carry obligations or securities the interest
40 on which is subject to tax under this chapter but exempt from federal
41 income tax, to the extent that such interest on indebtedness is not
42 deductible in determining federal adjusted gross income and is
43 attributable to a trade or business carried on by such individual, (ix)
44 ordinary and necessary expenses paid or incurred during the taxable
45 year for the production or collection of income which is subject to
46 taxation under this chapter but exempt from federal income tax, or the
47 management, conservation or maintenance of property held for the
48 production of such income, and the amortizable bond premium for the
49 taxable year on any bond the interest on which is subject to tax under

50 this chapter but exempt from federal income tax, to the extent that
51 such expenses and premiums are not deductible in determining federal
52 adjusted gross income and are attributable to a trade or business
53 carried on by such individual, (x) (I) for a person who files a return
54 under the federal income tax as an unmarried individual whose
55 federal adjusted gross income for such taxable year is less than fifty
56 thousand dollars, or as a married individual filing separately whose
57 federal adjusted gross income for such taxable year is less than fifty
58 thousand dollars, or for a husband and wife who file a return under
59 the federal income tax as married individuals filing jointly whose
60 federal adjusted gross income for such taxable year is less than sixty
61 thousand dollars or a person who files a return under the federal
62 income tax as a head of household whose federal adjusted gross
63 income for such taxable year is less than sixty thousand dollars, an
64 amount equal to the Social Security benefits includable for federal
65 income tax purposes; and (II) for a person who files a return under the
66 federal income tax as an unmarried individual whose federal adjusted
67 gross income for such taxable year is fifty thousand dollars or more, or
68 as a married individual filing separately whose federal adjusted gross
69 income for such taxable year is fifty thousand dollars or more, or for a
70 husband and wife who file a return under the federal income tax as
71 married individuals filing jointly whose federal adjusted gross income
72 from such taxable year is sixty thousand dollars or more or for a
73 person who files a return under the federal income tax as a head of
74 household whose federal adjusted gross income for such taxable year
75 is sixty thousand dollars or more, an amount equal to the difference
76 between the amount of Social Security benefits includable for federal
77 income tax purposes and the lesser of twenty-five per cent of the Social
78 Security benefits received during the taxable year, or twenty-five per
79 cent of the excess described in Section 86(b)(1) of the Internal Revenue
80 Code, (xi) to the extent properly includable in gross income for federal
81 income tax purposes, any amount rebated to a taxpayer pursuant to
82 section 12-746, (xii) to the extent properly includable in the gross
83 income for federal income tax purposes of a designated beneficiary,
84 any distribution to such beneficiary from any qualified state tuition

85 program, as defined in Section 529(b) of the Internal Revenue Code,
86 established and maintained by this state or any official, agency or
87 instrumentality of the state, (xiii) to the extent allowable under section
88 12-701a, contributions to accounts established pursuant to any
89 qualified state tuition program, as defined in Section 529(b) of the
90 Internal Revenue Code, established and maintained by this state or
91 any official, agency or instrumentality of the state, (xiv) to the extent
92 properly includable in gross income for federal income tax purposes,
93 the amount of any Holocaust victims' settlement payment received in
94 the taxable year by a Holocaust victim, (xv) to the extent properly
95 includable in gross income for federal income tax purposes of an
96 account holder, as defined in section 31-51ww, interest earned on
97 funds deposited in the individual development account, as defined in
98 section 31-51ww, of such account holder, (xvi) to the extent properly
99 includable in the gross income for federal income tax purposes of a
100 designated beneficiary, as defined in section 3-123aa, interest,
101 dividends or capital gains earned on contributions to accounts
102 established for the designated beneficiary pursuant to the Connecticut
103 Homecare Option Program for the Elderly established by sections 3-
104 123aa to 3-123ff, inclusive, (xvii) to the extent properly included in
105 gross income for federal income tax purposes, [fifty per cent of] the
106 income received from the United States government as retirement pay
107 for a retired member of (I) the Armed Forces of the United States, as
108 defined in Section 101 of Title 10 of the United States Code, or (II) the
109 National Guard, as defined in Section 101 of Title 10 of the United
110 States Code, as follows: Fifty per cent of such income for the taxable
111 year commencing January 1, 2015; sixty per cent of such income for the
112 taxable year commencing January 1, 2016; seventy per cent of such
113 income for the taxable year commencing January 1, 2017; eighty per
114 cent of such income for the taxable year commencing January 1, 2018;
115 ninety per cent of such income for the taxable year commencing
116 January 1, 2019; and one hundred per cent of such income for taxable
117 years commencing on or after January 1, 2020, (xviii) to the extent
118 properly includable in gross income for federal income tax purposes
119 for the taxable year, any income from the discharge of indebtedness in

120 connection with any reacquisition, after December 31, 2008, and before
121 January 1, 2011, of an applicable debt instrument or instruments, as
122 those terms are defined in Section 108 of the Internal Revenue Code, as
123 amended by Section 1231 of the American Recovery and Reinvestment
124 Act of 2009, to the extent any such income was added to federal
125 adjusted gross income pursuant to subparagraph (A)(x) of this
126 subdivision in computing Connecticut adjusted gross income for a
127 preceding taxable year, and (xix) to the extent not deductible in
128 determining federal adjusted gross income, the amount of any
129 contribution to a manufacturing reinvestment account established
130 pursuant to section 32-9zz in the taxable year that such contribution is
131 made.

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

137 (B) There shall be subtracted therefrom (i) to the extent properly
138 includable in gross income for federal income tax purposes, any
139 income with respect to which taxation by any state is prohibited by
140 federal law, (ii) to the extent allowable under section 12-718, exempt
141 dividends paid by a regulated investment company, (iii) the amount of
142 any refund or credit for overpayment of income taxes imposed by this
143 state, or any other state of the United States or a political subdivision
144 thereof, or the District of Columbia, to the extent properly includable
145 in gross income for federal income tax purposes, (iv) to the extent
146 properly includable in gross income for federal income tax purposes
147 and not otherwise subtracted from federal adjusted gross income
148 pursuant to clause (x) of this subparagraph in computing Connecticut
149 adjusted gross income, any tier 1 railroad retirement benefits, (v) to the
150 extent any additional allowance for depreciation under Section 168(k)
151 of the Internal Revenue Code, as provided by Section 101 of the Job
152 Creation and Worker Assistance Act of 2002, for property placed in
153 service after December 31, 2001, but prior to September 10, 2004, was

154 added to federal adjusted gross income pursuant to subparagraph
155 (A)(ix) of this subdivision in computing Connecticut adjusted gross
156 income for a taxable year ending after December 31, 2001, twenty-five
157 per cent of such additional allowance for depreciation in each of the
158 four succeeding taxable years, (vi) to the extent properly includable in
159 gross income for federal income tax purposes, any interest income
160 from obligations issued by or on behalf of the state of Connecticut, any
161 political subdivision thereof, or public instrumentality, state or local
162 authority, district or similar public entity created under the laws of the
163 state of Connecticut, (vii) to the extent properly includable in
164 determining the net gain or loss from the sale or other disposition of
165 capital assets for federal income tax purposes, any gain from the sale
166 or exchange of obligations issued by or on behalf of the state of
167 Connecticut, any political subdivision thereof, or public
168 instrumentality, state or local authority, district or similar public entity
169 created under the laws of the state of Connecticut, in the income year
170 such gain was recognized, (viii) any interest on indebtedness incurred
171 or continued to purchase or carry obligations or securities the interest
172 on which is subject to tax under this chapter but exempt from federal
173 income tax, to the extent that such interest on indebtedness is not
174 deductible in determining federal adjusted gross income and is
175 attributable to a trade or business carried on by such individual, (ix)
176 ordinary and necessary expenses paid or incurred during the taxable
177 year for the production or collection of income which is subject to
178 taxation under this chapter but exempt from federal income tax, or the
179 management, conservation or maintenance of property held for the
180 production of such income, and the amortizable bond premium for the
181 taxable year on any bond the interest on which is subject to tax under
182 this chapter but exempt from federal income tax, to the extent that
183 such expenses and premiums are not deductible in determining federal
184 adjusted gross income and are attributable to a trade or business
185 carried on by such individual, (x) (I) for a person who files a return
186 under the federal income tax as an unmarried individual whose
187 federal adjusted gross income for such taxable year is less than fifty
188 thousand dollars, or as a married individual filing separately whose

189 federal adjusted gross income for such taxable year is less than fifty
190 thousand dollars, or for a husband and wife who file a return under
191 the federal income tax as married individuals filing jointly whose
192 federal adjusted gross income for such taxable year is less than sixty
193 thousand dollars or a person who files a return under the federal
194 income tax as a head of household whose federal adjusted gross
195 income for such taxable year is less than sixty thousand dollars, an
196 amount equal to the Social Security benefits includable for federal
197 income tax purposes; and (II) for a person who files a return under the
198 federal income tax as an unmarried individual whose federal adjusted
199 gross income for such taxable year is fifty thousand dollars or more, or
200 as a married individual filing separately whose federal adjusted gross
201 income for such taxable year is fifty thousand dollars or more, or for a
202 husband and wife who file a return under the federal income tax as
203 married individuals filing jointly whose federal adjusted gross income
204 from such taxable year is sixty thousand dollars or more or for a
205 person who files a return under the federal income tax as a head of
206 household whose federal adjusted gross income for such taxable year
207 is sixty thousand dollars or more, an amount equal to the difference
208 between the amount of Social Security benefits includable for federal
209 income tax purposes and the lesser of twenty-five per cent of the Social
210 Security benefits received during the taxable year, or twenty-five per
211 cent of the excess described in Section 86(b)(1) of the Internal Revenue
212 Code, (xi) to the extent properly includable in gross income for federal
213 income tax purposes, any amount rebated to a taxpayer pursuant to
214 section 12-746, (xii) to the extent properly includable in the gross
215 income for federal income tax purposes of a designated beneficiary,
216 any distribution to such beneficiary from any qualified state tuition
217 program, as defined in Section 529(b) of the Internal Revenue Code,
218 established and maintained by this state or any official, agency or
219 instrumentality of the state, (xiii) to the extent allowable under section
220 12-701a, contributions to accounts established pursuant to any
221 qualified state tuition program, as defined in Section 529(b) of the
222 Internal Revenue Code, established and maintained by this state or
223 any official, agency or instrumentality of the state, (xiv) to the extent

224 properly includable in gross income for federal income tax purposes,
225 the amount of any Holocaust victims' settlement payment received in
226 the taxable year by a Holocaust victim, (xv) to the extent properly
227 includable in gross income for federal income tax purposes of an
228 account holder, as defined in section 31-51ww, interest earned on
229 funds deposited in the individual development account, as defined in
230 section 31-51ww, of such account holder, (xvi) to the extent properly
231 includable in the gross income for federal income tax purposes of a
232 designated beneficiary, as defined in section 3-123aa, interest,
233 dividends or capital gains earned on contributions to accounts
234 established for the designated beneficiary pursuant to the Connecticut
235 Homecare Option Program for the Elderly established by sections 3-
236 123aa to 3-123ff, inclusive, (xvii) to the extent properly includable in
237 gross income for federal income tax purposes, [fifty per cent of] the
238 income received from the United States government as retirement pay
239 for a retired member of (I) the Armed Forces of the United States, as
240 defined in Section 101 of Title 10 of the United States Code, or (II) the
241 National Guard, as defined in Section 101 of Title 10 of the United
242 States Code, as follows: Fifty per cent of such income for the taxable
243 year commencing January 1, 2015; sixty per cent of such income for the
244 taxable year commencing January 1, 2016; seventy per cent of such
245 income for the taxable year commencing January 1, 2017; eighty per
246 cent of such income for the taxable year commencing January 1, 2018;
247 ninety per cent of such income for the taxable year commencing
248 January 1, 2019; and one hundred per cent of such income for taxable
249 years commencing on or after January 1, 2020, (xviii) to the extent
250 properly includable in gross income for federal income tax purposes
251 for the taxable year, any income from the discharge of indebtedness in
252 connection with any reacquisition, after December 31, 2008, and before
253 January 1, 2011, of an applicable debt instrument or instruments, as
254 those terms are defined in Section 108 of the Internal Revenue Code, as
255 amended by Section 1231 of the American Recovery and Reinvestment
256 Act of 2009, to the extent any such income was added to federal
257 adjusted gross income pursuant to subparagraph (A)(x) of this
258 subdivision in computing Connecticut adjusted gross income for a

259 preceding taxable year, (xix) to the extent not deductible in
 260 determining federal adjusted gross income, the amount of any
 261 contribution to a manufacturing reinvestment account established
 262 pursuant to section 32-9zz in the taxable year that such contribution is
 263 made, and (xx) to the extent properly includable in gross income for
 264 federal income tax purposes, for the taxable year commencing January
 265 1, 2015, ten per cent of the income received from the state teachers'
 266 retirement system, for the taxable year commencing January 1, 2016,
 267 twenty-five per cent of the income received from the state teachers'
 268 retirement system, and for the taxable year commencing January 1,
 269 2017, and each taxable year thereafter, fifty per cent of the income
 270 received from the state teachers' retirement system.

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