



## SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE

EDWARD B. GRIMBALL, Chairman  
HOWELL CLYBORNE, JR.  
EMERSON F. GOWER, JR.

FRANK A. RAINWATER  
Executive Director

December 21, 2017

The Honorable Henry McMaster  
Governor, State of South Carolina  
First Floor, State House  
Columbia, SC 29201

Dear Governor McMaster:

This letter is in response to a request by staff for the estimated revenue impact of a full deduction of military retirement income in tax year 2018. This would speed up the implementation of Act 272 of 2016 and additionally provide a complete deduction of all military retirement income.

Act 272 of 2016 provides an individual income tax deduction of up to \$17,500 of earned income for taxpayers under age 65 that receive military retirement income. 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 military retirement income deductions are phased-in beginning in tax year 2016 over a five-year period through tax year 2020. The deductions for tax year 2018 are \$11,700 and \$24,000, respectively for taxpayers under age 65 and taxpayers age 65 and older. The revenue impact in FY 2018-19 for these deductions total \$13,374,156. The BEA revenue forecast for FY 2018-19 reflects this reduction in General Fund individual income tax revenue.

Table 1 reports the estimated revenue impact of implementing Act 272 of 2016 and a full deduction of all military retirement income for taxpayers under age 65 in tax year 2018. We estimate that the individual income tax revenue impact of the fully implemented military retirement income deduction in FY 2018-19 will total \$17,443,922. For taxpayers under age 65, the BEA has included a \$7,230,806 reduction in the individual income tax revenue forecast to implement Act 272 of 2016 through FY 2018-19. Therefore, the proposed complete deduction of the remaining military retirement for taxpayers under age 65 would reduce individual income tax revenue by an additional \$10,213,116 in FY 2018-19.

**Table 1: Tax Revenue Reduction 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>Total Tax Revenue Reduction from Phased-in Deduction</b>	<b>Annual Revenue Reduction</b>	<b>Additional Revenue Reduction from Full Military Retirement Deduction</b>
FY 2016-17	19,338	\$5,900	(\$4,048,245)	(\$4,048,245)	\$0
FY 2017-18	19,410	\$8,800	(\$5,636,034)	(\$1,587,789)	\$0
FY 2018-19	19,481	All	(\$17,443,922)	(\$11,807,888)	(\$10,213,116)

**Table 2: Tax Revenue Reduction 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>Total Tax Revenue Reduction from Phased-in Deduction</b>	<b>Annual Revenue Reduction</b>	<b>Additional Revenue Reduction from Full Military Retirement Deduction</b>
FY 2016-17	17,874	\$18,000	(\$2,451,350)	(\$2,451,350)	\$0
FY 2017-18	18,127	\$21,000	(\$4,282,550)	(\$1,831,200)	\$0
FY 2018-19	18,383	All	(\$10,009,410)	(\$5,726,860)	(\$3,866,060)

Table 2 reports the estimated revenue impact of implementing Act 272 of 2016 and a full deduction of all military retirement income for taxpayers age 65 and older in tax year 2018. We estimate that the individual income tax revenue impact of the fully implemented military retirement income deduction in FY 2018-19 will total \$10,009,410. For taxpayers age 65 and older, the BEA has included a \$6,143,350 reduction in the individual income tax revenue forecast to implement Act 272 of 2016 through FY 2018-19. Therefore, the proposed complete deduction of the remaining military retirement for taxpayers age 65 and older would reduce individual income tax revenue by an additional \$3,866,060 in FY 2018-19.

Combining the revenue impacts of the retirement income tax deduction for military retirees under age 65 and for taxpayers age 65 and older results in a total estimated reduction in General Fund individual income tax revenue of \$27,453,332 in FY 2018-19. Of this total, the BEA has included a \$13,374,156 reduction in the individual income tax revenue forecast to implement Act 272 of 2016 through FY 2018-19. Therefore, the proposed complete deduction of the remaining military retirement for all taxpayers would reduce General Fund individual income tax revenue by an additional \$14,079,176 in FY 2018-19.

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The total and additional revenue reductions by fiscal year are reported in Table 3.

**Table 3: Total Tax Revenue Reduction for All Military Retirees**

<b>Fiscal Year</b>	<b>Total Tax Revenue Reduction from Phased-in Deduction</b>	<b>Annual Tax Revenue Reduction from Act 272 of 2016</b>	<b>Additional Revenue Reduction from Full Military Retirement Deduction</b>
FY 2016-17	(\$6,499,595)	(\$6,499,595)	\$0
FY 2017-18	(\$9,918,584)	(\$3,418,989)	\$0
FY 2018-19	(\$27,453,332)	(\$13,374,156)	(\$14,079,176)

If we may be of further assistance, please advise.

Sincerely,



Frank A. Rainwater  
Executive Director

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cc: Mr. Jay Wolfe, Office of the Governor