

Enlisted Association of the Arkansas National Guard (EAANG) Resolution

AR 15 - 05

TITLE: State Income Tax Exemption for Military Retiree Pay and Compensation

SHORT DESCRIPTION: Call upon the legislatures of Arkansas to amend the Arkansas Tax code so that retiree compensation from the Department of Defense is state income tax exempt.

PROPOSAL TYPE: Revised Submission from AR 14-01.

SUBMITTER: SFC Jeffrey James Frisby

BUSINESS CASE: In 1943, the Arkansas legislature added a clause to the Arkansas Tax Code (26-51-306) that granted a tax exemption for Military members. Over the years, it has been amended and changed to the point that all military pay is 100% exempt from state income tax; however, through the course of each change of the law, our retirees have never been granted this exemption for the pay that they receive after separating from the military. Even after multiple years of House attempts and a 2015 Senate attempt, our retirees have never been granted this exemption. Every state that neighbors Arkansas has an exemption for retirees and since 2010, Arkansas has been the only state in the region that has actually had a decline in retiree military members. Most retirees depart the military with a guaranteed monthly pay check, medical insurance, education benefits, and very unique, sought after job skills. More importantly, when they retiree anywhere other than Arkansas, they have an entire family that goes with them; a family that works, goes to school, and that all could be economic players for Arkansas. A recent study by the UALR Institute for Economic Advancement shows that providing a 100% income tax exemption for military retirees will help Arkansas retain these service members and their families, which in turn, will actually increase revenue into the state after just a few years of implementation. Arkansas Guardsmen are the **Arkansas Workforce**, often times with job skillsets and disciplines that are learned from the military and are highly valued to employers or individually as entrepreneurs.

RECOMMENDATION: The Enlisted Association of the Arkansas National Guard (EAANG) urges the Governor of Arkansas to include in his 2017-2018 Budget the required adjustments to incorporate a tax exemption for all Military Retirees, Active and Reserve Component, on their Military Retirement Pay and Compensation. During the 90th Arkansas General Assembly, SB 782 and its companion house bill, HB 1412, both would have gradually introduced this exemption over the course of 4 years. We encourage the Governor to take this approach when incorporating the changes into his budget. EAANG also encourages the Arkansas Legislature to begin working now to introduce bills for the 91st General Assembly that would accomplish the same work as with the two bills introduced in 2015.

1 State of Arkansas
2 90th General Assembly
3 Regular Session, 2015
4

A Bill

SENATE BILL 782

5 By: Senators Irvin, J. Hendren, Collins-Smith, B. Johnson, Rapert, Rice, E. Williams, J. Woods
6 By: Representatives C. Fite, C. Armstrong, Ballinger, Baltz, Branscum, Brown, Copeland, Cozart,
7 Deffenbaugh, D. Douglas, Drown, Harris, K. Hendren, M. Hodges, House, Johnson, Lemons, Lowery,
8 Lundstrum, G. McGill, D. Meeks, B. Overbey, Ratliff, Richmond, Rushing, Sabin, Scott, B. Smith,
9 Speaks, Sturch, Tosh, Tucker, Vines, Wallace, D. Whitaker

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For An Act To Be Entitled

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AN ACT TO PHASE IN AN INCOME TAX EXEMPTION FOR
13 RETIREMENT AND SURVIVOR BENEFITS FROM THE UNIFORMED
14 SERVICES; AND FOR OTHER PURPOSES.

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Subtitle

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TO PHASE IN AN INCOME TAX EXEMPTION FOR
21 RETIREMENT AND SURVIVOR BENEFITS FROM THE
22 UNIFORMED SERVICES.

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BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:

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SECTION 1. Arkansas Code § 26-51-307 is amended to read as follows:

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26-51-307. Retirement or disability benefits.

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(a)(1) The first six thousand dollars (\$6,000) of benefits received by
29 ~~any~~ a resident of this state from an individual retirement account or the
30 first six thousand dollars (\$6,000) of retirement benefits received by ~~any~~ a
31 resident of this state from public or private employment-related retirement
32 systems, plans, or programs, regardless of the method of funding for these
33 systems, plans, or programs, ~~shall be~~ is exempt from the state income tax.

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(2)(A) Only individual retirement account benefits received by
35 an individual retirement account participant after reaching fifty-nine and
36 one-half (59½) years of age qualify for the exemption.

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(B) The only other distributions or withdrawals from an



1 individual retirement account that qualify for the exemption before the
2 individual retirement account participant reaches fifty-nine and one-half
3 (59½) years of age are those made on account of the participant's death or
4 disability.

5 (C) All other premature distributions or early withdrawals
6 including, ~~but not limited to,~~ without limitation those taken for medical-
7 related expenses, higher education expenses, or a first-time home purchase do
8 not qualify for the exemption.

9 (b)(1)(A) Except as provided in subdivision (b)(2) and subsection (e)
10 of this section, the exemption provided for in subsection (a) of this section
11 for benefits received from an individual retirement account or from a public
12 or private employment-related retirement system, plan, or program ~~shall be~~ is
13 the only exemption from the state income tax allowed for benefits received
14 from an individual retirement account or from any publicly or privately
15 supported employment-related retirement system, plan, or program, excepting
16 only benefits received under systems, plans, or programs which are by federal
17 law exempt from the state income tax.

18 (B) ~~No~~ Except as provided in subsection (e) of this
19 section, a taxpayer shall not receive an exemption greater than six thousand
20 dollars (\$6,000) during any tax year under ~~the provisions of~~ this section.

21 (2) ~~The provisions of this~~ This section ~~shall~~ does not apply to
22 retirement or disability benefits received under a plan, system, or fund
23 described in § 26-51-404(b)(6).

24 (c)(1) Title 26 U.S.C. § 72, as in effect on January 1, 2009, is the
25 sole method by which a recipient of benefits from an individual retirement
26 account or from public or private employment-related retirement systems,
27 plans, or programs may deduct or recover his or her cost of contribution to
28 the plan when computing his or her income for state income tax purposes.

29 (2) A taxpayer shall not be allowed to deduct or recover any
30 portion of the taxpayer's cost of contribution to the plan that the taxpayer:

31 (A) Has ~~once~~ already deducted or recovered; or

32 (B) Would have been allowed to deduct or recover under any
33 provision of law or court decision.

34 (d)(1) An individual who is sixty-five (65) years of age or older and
35 who does not claim an exemption under subsection (a) of this section ~~shall be~~
36 is entitled to an additional state income tax credit of twenty dollars

1 (\$20.00).

2 (2) This credit is in addition to all other credits allowed by
3 law.

4 (e)(1) The retirement benefits received by a member of the uniformed
5 services and the survivor benefits that are funded by the retirement pay of a
6 member of the uniformed services are exempt from the income tax imposed by
7 the Income Tax Act of 1929, § 26-51-101 et seq., as follows:

8 (A) For tax year 2015, the first twelve thousand dollars
9 (\$12,000);

10 (B) For tax year 2016, the first twenty thousand dollars
11 (\$20,000);

12 (C) For tax year 2017, the first twenty-eight thousand
13 dollars (\$28,000); and

14 (D) For tax years beginning on and after January 1, 2018,
15 the entire amount of retirement benefits.

16 (2) As used in this subsection, "member of the uniformed
17 services" means a retired member of the following:

18 (A) The United States Army, the United States Marine
19 Corps, the United States Navy, the United States Air Force, and the United
20 States Coast Guard;

21 (B) The reserve components of the armed forces listed in
22 subdivision (e)(2)(A);

23 (C) The National Guard of any state;

24 (D) The commissioned regular or reserve corps of the
25 United States Public Health Service; and

26 (E) The commissioned corps of the National Oceanic and
27 Atmospheric Administration.

28 (f) A taxpayer claiming an exemption under subsection (e) of this
29 section is not eligible for an exemption under subsection (a) of this
30 section.

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