

The annual taxes lost because of the Indiana Military Tax Policy

Comparison with neighbors

| <u>STATE</u> | <u>%LOSS in last 5 yrs</u> |
|--------------|----------------------------|
| • Indiana | 16.4 |
| • Illinois | 15.6 |
| • Kentucky | 13 |
| • Ohio | 11.7 |
| • Iowa | 11.7 |
| • Wisconsin | 11.1 |
| • Missouri | 11.1 |
| • Michigan | 10.8 |
| • Tennessee | 9.8 |

ONLY INDIANA TAXES “ALL” MILITARY INCOME!!!!

- I. If Indiana changed state income tax law and did NOT tax military income and had a similar loss rate like Michigan (**10.8%**) then Indiana would have **5.6%** more veterans and their families in Indiana today (16.4-10.8=5.6)

This is 4,510 more veterans in Indiana and 84% of veterans are married (4,510 more veterans and **3,789 more spouses** in the state). Therefore **Indiana could have 8,299 more citizens.**

- A. *And if 60% worked and averaged \$50,000 annually; this would generate ????*

Impact on being like neighbors

1. **Additional income= \$249 MILLION** ($\$50,000 \times [8,299 * 60\%] = \$248,977,613$)
2. Additional income taxes on income using 3.23% ($\$248,977,613 \times 3.23\%$ state income tax rate)=
 $\$8,041,977$. **\$8.042 MILLION income tax revenue**
3. Additional sales tax revenue using 8.75% ($\$248,977,613 \times 8.75\%$)= $\$21,785,541$.
\$21.786MILLION sales tax revenue
4. Additionally 4.4% received Retired Income (18,121 retirees / 409,836 veterans). Indiana ranks 43rd!
Total monthly payment to the 18,121 retirees is \$30,489,000 (current 2017rate per DOD Actuary). This is an Average annually payment = \$20,190.28.

Assuming 4.4% of the If Indiana does NOT tax this military income on Indiana Income tax but does collect other taxes because these retirees will spend all or most of their retired pay. (4.4% of the 3,665 veterans [number Indiana would keep if Indiana was “average” at 10.8% instead of the current 16.4%) = **232 more would stay in Indiana and** receive an annual income of \$20,190.28.

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Therefore total additional income to Indiana would be \$4.7MILLION annual income.

5. Additional Sales tax on this disposable income would be **\$.399MILLION added Sales Tax income**
(232 veterans X \$20,190.28 annual retired income= \$4,691,799.20 X .085) = \$398,803

B. Additional 40% receiving Social Security Income @ \$24,000 annually.

6. Total additional \$(8,299 X 40% X \$24,000 SSI) = \$79,672,836

7. Additional income taxes on income using 3.23% (\$79,672,836 X 3.23%)= \$2,573,433.

\$2.573 MILLION income tax revenue

8. Additional sales tax revenue using 8.75% (\$79,672,836 X 8.75%)= \$6,971,373.

\$ 6.971MILLION sales tax revenue

C. These same 40% who are no longer working will have an IRA/401K and will be drawing \$7,200 annually from this source.

9. This adds \$23,901,120 income (8299 x 40% x \$7,200).

10. All this income is taxable. Income taxes at 2.32% on \$23,901,120 = \$554,506

\$.555MILLION income tax revenue

11. This same income will be spent and generate additional sales tax revenue \$23,901,120 x .0875= \$2,091,348.

\$2.091MILLION sales tax revenue

Therefore, the total tax revenue generated by being like Michigan (not taxing military income)

\$ 42.417MILLION more tax revenue from individuals annually!!

// And if Indiana would grow in retirees as a percentage of the total veteran population to make Indiana 16th to match the size of the veteran population in the nation then Indiana would **add an additional 3.7% of our veteran population** (8.1%-5.6%).

A. Then:

1. **The veteran retiree population would increase by 15,170 retirees over the current retirees.**

2. Using the DOD value that 84% of retirees are married; Indiana would add an **additional 12,743 spouses to the state population.**

3. Total 27,917 additional citizens added to Indiana.

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4. Assuming the additional 15,170 retirees earned the average annual retired income of \$20,190 ($15,170 \times \$20,190 = \$306,286,548$) then an additional **\$306.3MILLION** would be added to the Indiana economy.
 5. There would be no income tax revenue on this \$306.3 MILLION.
 6. These retirees will spend this revenue and pay 8.5% Sales tax on this \$306.3MILLION ($306,286,548 \times .0875 = \$26,800,073$). **\$26.800MILLION Sales Tax Revenue.**
- B. Assuming 60% of the retirees and their spouses will be working and averaging \$50,000 in annual gross income. This will add an **additional 16,632 people earning an additional \$831.6MILLION that is taxable as Indiana Income Tax.**
1. Indiana Income tax on the \$831,600,000 @ .0323 = \$19,293,120.
\$19.293MILLION additional Indiana Income tax revenue
 2. Indiana Sales Tax on the \$831,600,000 @ .0875= \$72,765,000.
\$72.765MILLION additional Indiana Sales tax revenue
- C. If 60% of retirees and their spouses are working, then **40% are not working** and receiving their retired pay, social security, and income from their IRA/401K.
1. 40% of retirees drawing their earned military retirement pay at \$20,190.28 ($15,170 \times .40 \times \$20,190 = \$122,512,920$).
 2. Indiana Income Tax on this \$122,512,920 is **ZERO** because it is exempt from Indiana Income tax.
 3. However, these retirees will spend their retired military income. ($122,512,920 \times .0875 = \$10,719,881$). **\$10.720MILLION additional Indiana Sales tax revenue**
 4. These retirees and their spouses will also receive Social Security. Therefore, 11,165 will be receiving Social Security. We assume their annual Social Security will be \$7,200. This adds an additional ($11,165 \times \$7,200 =$) \$267,964,800 into the Indiana economy.
 5. Social Security is taxable in Indiana as income. Therefore, ($\$267,964,800 \times .0232 = \$6,216,783$)
\$6.217MILLION additional Indiana Income tax revenue
 6. This same Social Security will be spent in Indiana. Therefore, ($\$267,964,800 \times .0875 = \$23,446,920$) **\$23.447MILLION additional Indiana Sales tax revenue**
 7. These same 11,165 individuals will be collecting on their IRA/401K. We are assuming the average annual IRA/401K income will be \$10,000 annually. This will generate

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additionally \$111,652,000 revenue into the Indiana economy. This income is taxable in Indiana.

8. Indiana Income tax on IRA/401K is \$111,652,000 @ .0323 = \$2,590,326.

\$2.590MILLION additional Indiana Income tax revenue

9. Indiana Sales Tax on IRA/401K is \$111,652,000 @ .0875= \$9,769,550.

\$9.770MILLION additional Indiana Sales tax revenue

Therefore, the total tax revenue generated by ranking 16th of 50 states equal to the veteran population ranking of Indiana because Indiana would not be taxing military income.

\$ 171.602MILLION more tax revenue from individuals annually!!

The grand total of a tax policy that does NOT tax military income when fully implemented to reach Indiana potential will be \$214.019MILLION annually!

Finally, **Indiana would add 21,730 workers who are skilled, disciplined and loyal.** They bring leadership experience, discipline, technical skills and entrepreneurial spirit. They provide a workforce at the mid and upper-talent pools up-shifting Indiana attractiveness to emerging and growing industry needs. They have significant formal post secondary education with several having a Masters or higher degree. They volunteer and perform at in the community at a significantly higher level.

The additional corporate income produced by these 21,730 workers will generate higher output for corporations and thus more corporate taxes paid to Indiana. How much is incalculable and could be even higher than the \$214.019MILLION annually!

This analysis does NOT include the velocity of money which would multiply these revenues at a velocity of 6 TIMES in our current business climate!

LSA Fiscal Impact Statement using SB328 prepared Dec 27,2016

FY2019 Revenue Loss \$39.4MILLION

FY2020 Revenue Loss \$41.1 MILLION assumed "potential" growth "by 3% to 5% annually".