

H. B. 2522

(By Delegates Lynch, P. Smith, A. Evans, Romine, Hamilton,
Householder, Boggs, Miley, H. White, Fluharty and Perry)

[Introduced January 30, 2015; referred to the

Committee on Pensions and Retirement then Finance.]

A BILL to amend and reenact §11-21-12 of the Code of West Virginia, 1931, as amended, relating to exempting State Teachers Retirement System pension benefits from West Virginia personal income taxation.

Be it enacted by the Legislature of West Virginia:

That §11-21-12 of the Code of West Virginia, 1931, as amended, be amended and reenacted to read as follows:

ARTICLE 21. PERSONAL INCOME TAX.

§11-21-12. West Virginia adjusted gross income of resident individual.

(a) *General.* -- The West Virginia adjusted gross income of a resident individual means his or her federal adjusted gross income as defined in the laws of the United States for the taxable year with the modifications specified in this section.

(b) *Modifications increasing federal adjusted gross income.* -- There shall be added to federal adjusted gross income unless already included therein the following items:

(1) Interest income on obligations of any state other than this state or of a political

1 subdivision of any other state unless created by compact or agreement to which this state is a party;

2 (2) Interest or dividend income on obligations or securities of any authority, commission or
3 instrumentality of the United States, which the laws of the United States exempt from federal income
4 tax but not from state income taxes;

5 (3) Any deduction allowed when determining federal adjusted gross income for federal
6 income tax purposes for the taxable year that is not allowed as a deduction under this article for the
7 taxable year;

8 (4) Interest on indebtedness incurred or continued to purchase or carry obligations or
9 securities the income from which is exempt from tax under this article, to the extent deductible in
10 determining federal adjusted gross income;

11 (5) Interest on a depository institution tax-exempt savings certificate which is allowed as an
12 exclusion from federal gross income under Section 128 of the Internal Revenue Code, for the federal
13 taxable year;

14 (6) The amount of a lump sum distribution for which the taxpayer has elected under Section
15 402(e) of the Internal Revenue Code of 1986, as amended, to be separately taxed for federal income
16 tax purposes; and

17 (7) Amounts withdrawn from a medical savings account established by or for an individual
18 under section twenty, article fifteen, chapter thirty-three of this code or section fifteen, article sixteen
19 of ~~said~~ that chapter that are used for a purpose other than payment of medical expenses, as defined
20 in those sections.

21 (c) *Modifications reducing federal adjusted gross income.* -- There shall be subtracted from
22 federal adjusted gross income to the extent included therein:

1 (1) Interest income on obligations of the United States and its possessions to the extent
2 includable in gross income for federal income tax purposes;

3 (2) Interest or dividend income on obligations or securities of any authority, commission or
4 instrumentality of the United States or of the State of West Virginia to the extent includable in gross
5 income for federal income tax purposes but exempt from state income taxes under the laws of the
6 United States or of the State of West Virginia, including federal interest or dividends paid to
7 shareholders of a regulated investment company, under Section 852 of the Internal Revenue Code
8 for taxable years ending after June 30, 1987;

9 (3) Any amount included in federal adjusted gross income for federal income tax purposes
10 for the taxable year that is not included in federal adjusted gross income under this article for the
11 taxable year;

12 (4) The amount of any refund or credit for overpayment of income taxes imposed by this
13 state, or any other taxing jurisdiction, to the extent properly included in gross income for federal
14 income tax purposes;

15 (5) Annuities, retirement allowances, returns of contributions and any other benefit received
16 under the West Virginia Public Employees Retirement System, ~~the West Virginia State Teachers~~
17 ~~Retirement System~~ and all forms of military retirement, including regular Armed Forces, reserves
18 and National Guard, including any survivorship annuities derived therefrom, to the extent includable
19 in gross income for federal income tax purposes: *Provided*, That notwithstanding any provisions in
20 this code to the contrary this modification shall be limited to the first \$2,000 of benefits received
21 under the West Virginia Public Employees Retirement System, ~~the West Virginia State Teachers~~
22 ~~Retirement System~~ and, including any survivorship annuities derived therefrom, to the extent

1 includable in gross income for federal income tax purposes for taxable years beginning after
2 December 31, 1986; and the first \$2,000 of benefits received under any federal retirement system
3 to which Title 4 U.S.C. §111 applies: *Provided, however,* That the total modification under this
4 paragraph shall not exceed \$2,000 per person receiving retirement benefits and this limitation shall
5 apply to all returns or amended returns filed after December 31, 1988: *Provided further,* That for
6 taxable years beginning after December 31, 2014, all retirement income in the form of pensions or
7 annuities from the state Teachers Retirement System shall be subtracted from federal adjusted gross
8 income;

9 (6) Retirement income received in the form of pensions and annuities after December 31,
10 1979, under any West Virginia police, West Virginia Firemen's Retirement System or the West
11 Virginia State Police Death, Disability and Retirement Fund, the West Virginia State Police
12 Retirement System or the West Virginia Deputy Sheriff Retirement System, including any
13 survivorship annuities derived from any of these programs, to the extent includable in gross income
14 for federal income tax purposes;

15 (7) (A) For taxable years beginning after December 31, 2000, and ending prior to January 1,
16 2003, an amount equal to two percent multiplied by the number of years of active duty in the Armed
17 Forces of the United States of America with the product thereof multiplied by the first \$30,000 of
18 military retirement income, including retirement income from the regular Armed Forces, reserves
19 and National Guard paid by the United States or by this state after December 31, 2000, including any
20 survivorship annuities, to the extent included in gross income for federal income tax purposes for
21 the taxable year.

22 (B) For taxable years beginning after December 31, 2002, the first \$20,000 of military

1 retirement income, including retirement income from the regular Armed Forces, reserves and
2 National Guard paid by the United States or by this state after December 31, 2002, including any
3 survivorship annuities, to the extent included in gross income for federal income tax purposes for
4 the taxable year.

5 (C) ~~In the event that~~ If any of the provisions of this subdivision are found by a court of
6 competent jurisdiction to violate either the Constitution of this state or of the United States, or is held
7 to be extended to persons other than specified in this subdivision, this subdivision shall ~~become null~~
8 ~~and be~~ void by operation of law.

9 (8) Federal adjusted gross income in the amount of \$8,000 received from any source after
10 December 31, 1986, by any person who has attained the age of sixty-five on or before the last day
11 of the taxable year, or by any person certified by proper authority as permanently and totally
12 disabled, regardless of age, on or before the last day of the taxable year, to the extent includable in
13 federal adjusted gross income for federal tax purposes: *Provided*, That if a person has a medical
14 certification from a prior year and he or she is still permanently and totally disabled, a copy of the
15 original certificate is acceptable as proof of disability. A copy of the form filed for the federal
16 disability income tax exclusion is acceptable: *Provided, however*, That:

17 (I) Where the total modification under subdivisions (1), (2), (5), (6) and (7) of this subsection
18 is \$8,000 per person or more, ~~no~~ a deduction shall may not be allowed under this subdivision; and

19 (ii) Where the total modification under subdivisions (1), (2), (5), (6) and (7) of this subsection
20 is less than \$8,000 per person, the total modification allowed under this subdivision for all gross
21 income received by that person ~~shall be~~ is limited to the difference between \$8,000 and the sum of
22 modifications under subdivisions (1), (2), (5), (6) and (7) of this subsection;

1 (9) Federal adjusted gross income in the amount of \$8,000 received from any source after
2 December 31, 1986, by the surviving spouse of any person who had attained the age of sixty-five or
3 who had been certified as permanently and totally disabled, to the extent includable in federal
4 adjusted gross income for federal tax purposes: *Provided*, That:

5 (I) Where the total modification under subdivisions (1), (2), (5), (6), (7) and (8) of this
6 subsection is \$8,000 or more, ~~no~~ a deduction shall may not be allowed under this subdivision; and

7 (ii) Where the total modification under subdivisions (1), (2), (5), (6), (7) and (8) of this
8 subsection is less than \$8,000 per person, the total modification allowed under this subdivision for
9 all gross income received by that person ~~shall be~~ is limited to the difference between \$8,000 and the
10 sum of subdivisions (1), (2), (5), (6), (7) and (8) of this subsection;

11 (10) Contributions from any source to a medical savings account established by or for the
12 individual pursuant to section twenty, article fifteen, chapter thirty-three of this code or section
13 fifteen, article sixteen of said chapter, plus interest earned on the account, to the extent includable
14 in federal adjusted gross income for federal tax purposes: *Provided*, That the amount subtracted
15 pursuant to this subdivision for any one taxable year may not exceed \$2,000 plus interest earned on
16 the account. For married individuals filing a joint return, the maximum deduction is computed
17 separately for each individual;

18 (11) For the 2006 taxable year only, severance wages received by a taxpayer from an
19 employer as the result of the taxpayer's permanent termination from employment through a reduction
20 in force and through no fault of the employee, not to exceed \$30,000. For purposes of this
21 subdivision:

22 (I) The term "severance wages" means any monetary compensation paid by the employer in

1 the taxable year as a result of permanent termination from employment in excess of regular annual
2 wages or regular annual salary;

3 (ii) The term "reduction in force" means a net reduction in the number of employees
4 employed by the employer in West Virginia, determined based on total West Virginia employment
5 of the employer's controlled group;

6 (iii) The term "controlled group" means one or more chains of corporations connected
7 through stock ownership with a common parent corporation if stock possessing at least fifty percent
8 of the voting power of all classes of stock of each of the corporations is owned directly or indirectly
9 by one or more of the corporations and the common parent owns directly stock possessing at least
10 fifty percent of the voting power of all classes of stock of at least one of the other corporations;

11 (iv) The term "corporation" means any corporation, joint-stock company or association and
12 any business conducted by a trustee or trustees wherein interest or ownership is evidenced by a
13 certificate of interest or ownership or similar written instrument; and

14 (12) Any other income which this state is prohibited from taxing under the laws of the United
15 States.

16 (d) *Modification for West Virginia fiduciary adjustment.* -- There shall be added to or
17 subtracted from federal adjusted gross income, as the case may be, the taxpayer's share, as
18 beneficiary of an estate or trust, of the West Virginia fiduciary adjustment determined under section
19 nineteen of this article.

20 (e) *Partners and S corporation shareholders.* -- The amounts of modifications required to
21 be made under this section by a partner or an S corporation shareholder, which relate to items of
22 income, gain, loss or deduction of a partnership or an S corporation, shall be determined under

1 section seventeen of this article.

2 (f) *Husband and wife*. -- If husband and wife determine their federal income tax on a joint
3 return but determine their West Virginia income taxes separately, they shall determine their West
4 Virginia adjusted gross incomes separately as if their federal adjusted gross incomes had been
5 determined separately.

6 (g) *Effective date*. -- (1) Changes in the language of this section enacted in the year 2000 ~~shall~~
7 apply to taxable years beginning after December 31, 2000.

8 (2) Changes in the language of this section enacted in the year 2002 ~~shall~~ apply to taxable
9 years beginning after December 31, 2002.

10 (3) Changes in the language of this section enacted in the year 2015, apply to taxable years
11 beginning after December 31, 2014.

NOTE: The purpose of this bill is to exempt State Teachers Retirement System pension benefits from West Virginia personal income tax.

Strike-throughs indicate language that would be stricken from the present law, and underscoring indicates new language that would be added.