

WEST VIRGINIA LEGISLATURE

2018 REGULAR SESSION

Introduced

House Bill 4017

FISCAL
NOTE

BY DELEGATES CRISS, FRICH, WESTFALL, PACK, AMBLER,

MAYNARD, ATKINSON, ELLINGTON, ROWAN AND MR.

SPEAKER, (MR. ARMSTEAD)

[Introduced January 31, 2018;

referred to the Committee on Finance.]

1 A BILL to amend and reenact §11-21-12 of the Code of West Virginia, 1931, as amended, relating
 2 to exempting percentages of social security benefits from personal income tax for certain
 3 taxpayers beginning after specified date; and increasing to one hundred percent the
 4 percentage of social security benefits to which exemption applies for those certain
 5 taxpayers over three-year period.

Be it enacted by the Legislature of West Virginia:

ARTICLE 21. PERSONAL INCOME TAX.

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

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

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

6 (1) Interest income on obligations of any state other than this state or of a political
 7 subdivision of any other state unless created by compact or agreement to which this state is a
 8 party;

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

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

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

18 (5) Interest on a depository institution tax-exempt savings certificate which is allowed as

19 an exclusion from federal gross income under Section 128 of the Internal Revenue Code, for the
20 federal taxable year;

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

24 (7) Amounts withdrawn from a medical savings account established by or for an individual
25 under §33-15-20 or §33-16-15 that are used for a purpose other than payment of medical
26 expenses, as defined in those sections.

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

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

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

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

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

43 (5) Annuities, retirement allowances, returns of contributions and any other benefit
44 received under the West Virginia Public Employees Retirement System, and the West Virginia

45 State Teachers Retirement System, including any survivorship annuities derived therefrom, to the
46 extent includable in gross income for federal income tax purposes: *Provided*, That notwithstanding
47 any provisions in this code to the contrary this modification shall be limited to the first \$2,000 of
48 benefits received under the West Virginia Public Employees Retirement System, the West Virginia
49 State Teachers Retirement System and, including any survivorship annuities derived therefrom,
50 to the extent includable in gross income for federal income tax purposes for taxable years
51 beginning after December 31, 1986; and the first \$2,000 of benefits received under any federal
52 retirement system to which Title 4 U.S.C. § 111 applies: *Provided, however*, That the total
53 modification under this paragraph shall not exceed \$2,000 per person receiving retirement
54 benefits and this limitation shall apply to all returns or amended returns filed after December 31,
55 1988;

56 (6) Retirement income received in the form of pensions and annuities after December 31,
57 1979, under any West Virginia police, West Virginia Firemen's Retirement System or the West
58 Virginia State Police Death, Disability and Retirement Fund, the West Virginia State Police
59 Retirement System or the West Virginia Deputy Sheriff Retirement System, including any
60 survivorship annuities derived from any of these programs, to the extent includable in gross
61 income for federal income tax purposes;

62 (7) (A) For taxable years beginning after December 31, 2000, and ending prior to January
63 1, 2003, an amount equal to two percent multiplied by the number of years of active duty in the
64 armed forces of the United States of America with the product thereof multiplied by the first
65 \$30,000 of military retirement income, including retirement income from the regular armed forces,
66 Reserves, and National Guard paid by the United States or by this state after December 31, 2000,
67 including any survivorship annuities, to the extent included in gross income for federal income tax
68 purposes for the taxable year.

69 (B) For taxable years beginning after December 31, 2000, the first \$20,000 of military
70 retirement income, including retirement income from the regular armed forces, Reserves, and

71 National Guard paid by the United States or by this state after December 31, 2002, including any
72 survivorship annuities, to the extent included in gross income for federal income tax purposes for
73 the taxable year.

74 (C) For taxable years beginning after December 31, 2017, military retirement income,
75 including retirement income from the regular armed forces, Reserves, and National Guard paid
76 by the United States or by this state after December 31, 2017, including any survivorship
77 annuities, to the extent included in federal adjusted gross income for the taxable year.

78 (D) In the event that any of the provisions of this subdivision are found by a court of
79 competent jurisdiction to violate either the Constitution of this state or of the United States, or is
80 held to be extended to persons other than specified in this subdivision, this subdivision shall
81 become null and void by operation of law.

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

90 (i) Where the total modification under subdivisions (1), (2), (5), (6), ~~and (7)~~, and (12) of this
91 subsection is \$8,000 per person or more, no deduction shall be allowed under this subdivision;
92 and

93 (ii) Where the total modification under subdivisions (1), (2), (5), (6), ~~and (7)~~, and (12) of
94 this subsection is less than \$8,000 per person, the total modification allowed under this
95 subdivision for all gross income received by that person shall be limited to the difference between
96 \$8,000 and the sum of modifications under subdivisions (1), (2), (5), (6), ~~and (7)~~, and (12) of this

97 subsection;

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

102 (i) Where the total modification under subdivisions (1), (2), (5), (6), (7), ~~and (8)~~, and (12)
103 of this subsection is \$8,000 or more, no deduction shall be allowed under this subdivision; and

104 (ii) Where the total modification under subdivisions (1), (2), (5), (6), (7), ~~and (8)~~, and (12)
105 of this subsection is less than \$8,000 per person, the total modification allowed under this
106 subdivision for all gross income received by that person shall be limited to the difference between
107 \$8,000 and the sum of subdivisions (1), (2), (5), (6), (7), ~~and (8)~~, and (12) of this subsection;

108 (10) Contributions from any source to a medical savings account established by or for the
109 individual pursuant to §33-15-20 or §33-16-15, plus interest earned on the account, to the extent
110 includable in federal adjusted gross income for federal tax purposes: *Provided*, That the amount
111 subtracted pursuant to this subdivision for any one taxable year may not exceed \$2,000 plus
112 interest earned on the account. For married individuals filing a joint return, the maximum
113 deduction is computed separately for each individual;

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

118 (i) The term "severance wages" means any monetary compensation paid by the employer
119 in the taxable year *as a result of* permanent termination from employment in excess of regular
120 annual wages or regular annual salary;

121 (ii) The term "reduction in force" means a net reduction in the number of employees
122 employed by the employer in West Virginia, determined based on total West Virginia employment

123 of the employer's controlled group;

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

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

133 (12) Decreasing modification for social security income.

134 (A) For taxable years beginning on and after January 1, 2019, twenty-five percent of the
135 amount of social security benefits received pursuant to Title 42 U.S.C., Chapter 7, including, but
136 not limited to, social security benefits paid by the Social Security Administration as Old Age,
137 Survivors and Disability Insurance Benefits as provided in §42 U.S.C. 401 et seq. or as
138 Supplemental Security Income for the Aged, Blind, and Disabled as provided in §42 U.S.C. 1381
139 et seq., included in federal adjusted gross income for the taxable year shall be allowed as a
140 decreasing modification from federal adjusted gross income when determining West Virginia
141 taxable income subject to the tax imposed by this article, subject to the limitation in paragraph (D)
142 of this subdivision.

143 (B) For taxable years beginning on or after January 1, 2020, fifty percent of the social
144 security benefits received pursuant to Title 42 U.S.C., Chapter 7, including, but not limited to,
145 social security benefits paid by the Social Security Administration as Old Age, Survivors and
146 Disability Insurance Benefits as provided in §42 U.S.C. 401 et seq. or as Supplemental Security
147 Income for the Aged, Blind, and Disabled as provided in §42 U.S.C. 1381 et seq., included in
148 federal adjusted gross income for the taxable year shall be allowed as a decreasing modification

149 from federal adjusted gross income when determining West Virginia taxable income subject to
150 the tax imposed by this article, subject to the limitation in paragraph (D) of this subdivision.

151 (C) For taxable years beginning on or after January 1, 2021, one hundred percent of the
152 social security benefits received pursuant to Title 42 U.S.C., Chapter 7, including, but not limited
153 to, social security benefits paid by the Social Security Administration as Old Age, Survivors and
154 Disability Insurance Benefits as provided in §42 U.S.C. 401 et seq. or as Supplemental Security
155 Income for the Aged, Blind, and Disabled as provided in §42 U.S.C. 1381 et seq., included in
156 federal adjusted gross income for the taxable year shall be allowed as a decreasing modification
157 from federal adjusted gross income when determining West Virginia taxable income subject to
158 the tax imposed by this article, subject to the limitation in paragraph (D) of this subdivision.

159 (D) Limitation on taking the deduction allowed by paragraphs (A), (B), and (C) of this
160 subdivision. – The deduction allowed by paragraphs (A), (B) and (C) of this subdivision shall be
161 allowable only when the federal adjusted gross income of a married couple filing a joint return
162 does not exceed \$100,000, or \$50,000 in the case of a single individual or a married individual
163 filing a separate return.

164 (E) In the event that any provision of this subdivision is found by a court of competent
165 jurisdiction to violate either the Constitution of the United States or this state, or is held to be
166 extended to persons other than those specified in this section, this section shall become null and
167 void by operation of law; and

168 ~~(42)~~ (13) Any other income which this state is prohibited from taxing under the laws of the
169 United States.

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

174 (e) *Partners and S corporation shareholders.* -- The amounts of modifications required to

175 be made under this section by a partner or an S corporation shareholder, which relate to items of
176 income, gain, loss or deduction of a partnership or an S corporation, shall be determined under
177 section seventeen of this article.

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

182 (g) *Effective date.* --

183 (1) Changes in the language of this section enacted in the year 2000 shall apply to taxable
184 years beginning after December 31, 2000.

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

NOTE: The purpose of this bill is to create a partial state income tax exemption for Social Security benefits received by taxpayers with federal adjusted gross income under \$100,000 if married filing jointly, or under \$50,000 if single or married filing separately. The exemption would be phased in to a full exemption over 3 years. For taxable years beginning in 2019, 25% of the Social Security benefits are exempt; in 2020, 50 percent; and in 2021 and thereafter, 100 percent.

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