



COMMONWEALTH OF VIRGINIA JOINT LEADERSHIP COUNCIL OF VETERANS SERVICE ORGANIZATIONS

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RICHMOND, VA 23219

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Roanoke Valley Veterans Council
Veterans of Foreign Wars
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Virginia Army/Air National Guard Enlisted Association
Virginia National Guard Association
Women Marines Association

DATE

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Income Tax Subtraction for Certain Low-Income 100% Disabled Veterans

OBJECTIVE: To allow individual income tax subtraction for the amount of annual retirement compensation received for service as a member of the U.S. Armed Forces, or the Virginia National Guard, for 100% service-connected disabled veterans with a federal adjusted gross income not exceeding 150% of the federal poverty level for a four-person household. No subtraction would be permitted if another Virginia subtraction or deduction for such service has been claimed.

BACKGROUND:

- Virginia currently allows qualifying taxpayers to claim a subtraction for up to \$20,000 of disability income. Any disabled veterans who already claim this subtraction would not qualify for the new program, or would have to drop this subtraction and claim the new one.
- 14 states with an income tax exempt military retirement pay. Virginia's neighbors:
 - D.C. and Maryland offer exemptions ranging from \$3,000 to \$5,000.
 - North Carolina offers a full exemption for retirees with five years of service as of August 12, 1989; otherwise, retirees may claim a deduction of up to \$4,000.
 - Kentucky offers exemptions of \$41,110 and West Virginia \$20,000.

DISCUSSION:

- While Combat-Related Special Compensation (CRSC) is not subject to federal or Virginia taxation, Concurrent Retirement and Disability Payments (CRDP) are generally subject to both federal and Virginia taxation.
- Available reports do not provide specific data on the exact number of 100% service-connected disabled veterans in Virginia, however, the VA has given a reasonable estimate of **1,371** disabled Virginia veterans who would qualify for this benefit.
- Department of Taxation considers implementation of this bill as routine, and does not require additional funding.

RECOMMENDATION: That the Governor and General Assembly approve an individual income tax subtraction for 100% service-connected disabled veterans with a federal adjusted gross income, not exceeding 150% of the federal poverty level for a four-person household, who have not already claimed another exemption.