

Senate Bill No. 525

(By Senators Barnes, Blair, Boley, Carmichael, Green, M. Hall,
Jenkins, Williams, Plymale, D. Hall, Cookman and Nohe)

[Introduced February 10, 2014; referred to the Committee on
Pensions; and then to the Committee on Finance.]

**FISCAL
NOTE**

A BILL to amend and reenact §11-21-12 of the Code of West Virginia,
1931, as amended, relating to exempting pensions and annuities
from the Public Employees Retirement System and the Teachers
Retirement System from state income tax.

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.

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

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

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

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

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

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

23 (6) The amount of a lump sum distribution for which the
24 taxpayer has elected under Section 402(e) of the Internal Revenue

1 Code of 1986, as amended, to be separately taxed for federal income
2 tax purposes; and

3 (7) Amounts withdrawn from a medical savings account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

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

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

14 (2) Interest or dividend income on obligations or securities
15 of any authority, commission or instrumentality of the United
16 States or of the State of West Virginia to the extent includable in
17 gross income for federal income tax purposes but exempt from state
18 income taxes under the laws of the United States or of the State of
19 West Virginia, including federal interest or dividends paid to
20 shareholders of a regulated investment company, under Section 852
21 of the Internal Revenue Code for taxable years ending after June
22 30, 1987;

23 (3) Any amount included in federal adjusted gross income for
24 federal income tax purposes for the taxable year that is not

1 included in federal adjusted gross income under this article for
2 the taxable year;

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

7 (5) Annuities, retirement allowances, returns of contributions
8 and any other benefit received under the West Virginia Public
9 Employees Retirement System, the West Virginia State Teachers
10 Retirement System and all forms of military retirement, including
11 regular Armed Forces, reserves and National Guard, including any
12 survivorship annuities derived therefrom, to the extent includable
13 in gross income for federal income tax purposes: *Provided*, That
14 notwithstanding any provisions in this code to the contrary this
15 modification shall be limited to the first \$2,000 of benefits
16 received under the West Virginia Public Employees Retirement
17 System, the West Virginia State Teachers Retirement System and,
18 including any survivorship annuities derived therefrom, to the
19 extent includable in gross income for federal income tax purposes
20 for taxable years beginning after December 31, 1986; and the first
21 \$2,000 of benefits received under any federal retirement system to
22 which Title 4 U.S.C. §111 applies: *Provided, however*, That the
23 total modification under this paragraph shall not exceed \$2,000 per
24 person receiving retirement benefits and this limitation shall

1 apply to all returns or amended returns filed after December 31,
2 1988: Provided further, That for taxable years beginning after
3 December 31, 2014, all retirement income in the form of pensions or
4 annuities from the State Public Employees Retirement System, the
5 State Teachers Retirement System and all forms of military
6 retirement, including regular Armed Forces, Reserves and National
7 Guard, shall be subtracted from federal adjusted gross income;

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

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

1 the taxable year.

2 (B) Except as provided in subsection (c)(5) of this section
3 concerning taxable years beginning after December 31, 2014, for
4 taxable years beginning after December 31, 2002, the first \$20,000
5 of military retirement income, including retirement income from the
6 regular Armed Forces, reserves and National Guard paid by the
7 United States or by this state after December 31, 2002, including
8 any survivorship annuities, to the extent included in gross income
9 for federal income tax purposes for the taxable year.

10 (C) In the event that any of the provisions of this
11 subdivision are found by a court of competent jurisdiction to
12 violate either the Constitution of this state or of the United
13 States, or is held to be extended to persons other than specified
14 in this subdivision, this subdivision shall become null and void by
15 operation of law.

16 (8) Federal adjusted gross income in the amount of \$8,000
17 received from any source after December 31, 1986, by any person who
18 has attained the age of sixty-five on or before the last day of the
19 taxable year, or by any person certified by proper authority as
20 permanently and totally disabled, regardless of age, on or before
21 the last day of the taxable year, to the extent includable in
22 federal adjusted gross income for federal tax purposes: *Provided,*
23 That if a person has a medical certification from a prior year and
24 he or she is still permanently and totally disabled, a copy of the

1 original certificate is acceptable as proof of disability. A copy
2 of the form filed for the federal disability income tax exclusion
3 is acceptable: *Provided, however, That:*

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

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

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

19 (I) Where the total modification under subdivisions (1), (2),
20 (5), (6), (7) and (8) of this subsection is \$8,000 or more, no
21 deduction shall be allowed under this subdivision; and

22 (ii) Where the total modification under subdivisions (1), (2),
23 (5), (6), (7) and (8) of this subsection is less than \$8,000 per
24 person, the total modification allowed under this subdivision for

1 all gross income received by that person shall be limited to the
2 difference between \$8,000 and the sum of subdivisions (1), (2),
3 (5), (6), (7) and (8) of this subsection;

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

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

19 (I) The term "severance wages" means any monetary compensation
20 paid by the employer in the taxable year as a result of permanent
21 termination from employment in excess of regular annual wages or
22 regular annual salary;

23 (ii) The term "reduction in force" means a net reduction in
24 the number of employees employed by the employer in West Virginia,

1 determined based on total West Virginia employment of the
2 employer's controlled group;

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

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

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

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

23 (e) *Partners and S corporation shareholders.* -- The amounts of
24 modifications required to be made under this section by a partner

1 or an S corporation shareholder, which relate to items of income,
2 gain, loss or deduction of a partnership or an S corporation, shall
3 be determined under section seventeen of this article.

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

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

12 (2) Changes in the language of this section enacted in the
13 year 2002 shall apply to taxable years beginning after December 31,
14 2002.

NOTE: The purpose of this bill is to exempt all pensions and annuities from the State Public Employees Retirement System, the State Teachers Retirement System and military retirement from state income tax.

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