



COMMONWEALTH OF VIRGINIA JOINT LEADERSHIP COUNCIL OF VETERANS SERVICE ORGANIZATIONS

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RICHMOND, VA 23219

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Vietnam Veterans of America
Virginia Army/Air National Guard Enlisted Association
Virginia National Guard Association
Women Marines Association

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Position Paper 2021-01

Income tax subtraction for certain low-income 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.

BACKGROUND:

- Virginia currently allows qualifying taxpayers to claim a subtraction for up to \$20,000 of disability income;
- As of September 30 2019, there were 3,200 retired service members (Regular & Reserve) in Virginia receiving taxable disability (Concurrent Retirement and Disability Payments, or CRDP) in the average amount of \$21,296;
- As of September 30, 2019, there were 1,712 retired service members (Regular & Reserve) in Virginia receiving non-taxable disability (Combat-Related Special Compensation, or CRSC) in the average amount of \$9,470;
- As of September 30, 2019, there were a total of 150,146 Department of Defense (DoD) military retirees in Virginia with average annual compensation of \$37,163;
- In 2018, 12.88% of all disabled veterans in Virginia were rated at 100%;
- The federal poverty level for a four-person household for 2020 is \$26,200;
- Median household income in Virginia for 2018 was \$72,577;
- 9.3% of households in Virginia were below the poverty level in 2018-2019;
- All neighboring states exempt some or all military retirement from taxation.

DISCUSSION:

- While CRSC is not subject to federal or Virginia taxation, CRDP is generally subject to both federal and Virginia taxation;
- Available reports do not provide specific data how many of the 4,912 retired service members receiving disability that are 100% service-connected disabled and below the poverty level, but the number is expected to be a small;
- Department of Taxation considers implementation of this bill as routine and does not require additional funding;
- No subtraction would be permitted if another Virginia subtraction or deduction for such service has been claimed.

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.