



## SC DEPARTMENT OF VETERANS' AFFAIRS SC MILITARY BASE TASK FORCE



### 2021 Retirement Exemption Workforce Enhancement and Military Recognition Act

#### **2019 Status**

Act 272, which passed in 2016, approved a phase-in of a partial exemption of military retirement income. The two years remaining of the phase-in, 2019 and 2020, are as follows:

Retirees under 65 may deduct an amount of retirement income equal to SC earned income not exceeding \$14,600. That amount increases to \$17,500 in 2020.

Retirees 65 and over may deduct retirement income not exceeding \$27,000 (\$42,000 joint). That amount increases to \$30,000 (\$45,000 joint) in 2020.

See Appendix A

#### **2020 Action Needed**

**H.3135** passed the House in 2019 and is pending in the Senate, as is **S.179**, the identical companion bill. These bills move the exemption amount to a full exemption in 2021 following implementation of Act 272, but continues the SC earned income distinction (i.e. retirement income deductible equal to the amount of SC earned income) for those under 65.

See Appendix B

#### **The Revenue and Fiscal Affairs Office (“RFA”) estimates of lost revenue due to expansion of exemption:**

In Fiscal Year 2021-2022 (tax year 2021), RFA projects lost revenue of \$1,708,960 from implementing H.3135/S.179.

In Fiscal Year 2022-2023 (tax year 2022) RFA projects lost revenue of \$9,852,765 from implementing H.3135/S.179.

See Appendix C

## **What RFA Calculations Measure (and what it doesn't)**

The RFA calculation measures only the direct tax revenue loss to the General Fund. It does not reflect the economic benefits to the State economy that flow from employment by the military retiree and/or members of his/her family, or the economic feedback attributable to money spent in the economy or the taxes paid by other members of the retiree's family.

Neither does it take into account the numerous recognized intangible benefits that military retirees contribute to the State and the communities in which they live.

## **What Military Retirees Contribute**

The number one issue hindering the economic vitality of South Carolina companies today is workforce. Many retirees are in their late 30s, 40s or 50s when they retire from military service. A high percentage of them will begin second careers here bringing with them a skill set – intellectual, emotional and behavioral, that will be highly sought after by many employers.

See: [https://www.postandcourier.com/business/shortage-of-workers-means-sc-companies-have-openings-and-are/article\\_36d36ade-7e2a-11e9-bf69-f30c0984f915.html](https://www.postandcourier.com/business/shortage-of-workers-means-sc-companies-have-openings-and-are/article_36d36ade-7e2a-11e9-bf69-f30c0984f915.html)

## **Top Ten Reasons for Veteran/Retiree Employment:**

1. **LEADERSHIP.** Military employees are excellent leaders and outstanding followers – loyal, dedicated and highly motivated.
2. **PROFESSIONALISM.** Military employees have a high degree of integrity, self-respect and a sense of honor.
3. **RESPONSIBILITY AND ACCOUNTABILITY.** Military employees know how to make decisions and take responsibility for meeting deadlines.
4. **UNDERSTAND DIVERSITY.** Military employees have succeeded in a very diverse workplace.
5. **HEALTH CONSCIOUS.** Military employees are accustomed to high physical standards and operate in a drug-free environment.
6. **“CAN DO” ATTITUDE.** Military employees possess critical skills and understand that nothing is necessarily impossible.
7. **DEPENDABILITY AND DETERMINATION.** Military employees are resilient and know how to handle stress, both on and off the job.
8. **FIRST CLASS IMAGE.** Military employees understand that a professional appearance is a must.
9. **ON TIME, ALL THE TIME.** Military employees understand that timeliness is essential.
10. **GLOBAL PERSPECTIVE.** Military experience has provided an understanding of and appreciation for the demands of technology and globalization.

One positive aspect of the military retiree that is frequently overlooked is the value of the **military spouses**, many of whom possess the same intangible qualities of the retiree. When the acute issue of workforce development is considered, South Carolina benefits from this “two-for-one” bonus.

See [www.scmilitarybases.com](http://www.scmilitarybases.com) for the full report.

### **Other Intangibles Not Measured**

Children of retirees are typically older and will not place an undue burden on the school system. Rather, they will frequently be seeking college and advanced education, at times supplemented by GI Bill Funding, and after their education enter our workforce.

Significantly, retirees bring with them health insurance coverage and benefits which means that they and their family will not put an unfunded strain on health care facilities.

See [Appendix D, 2019 Update](#)

### **Economic Impact**

Our state is blessed with several key economic engines. The South Carolina Ports Authority immediately comes to mind, with its recently announced Economic Impact report of October 2019, reflecting \$63.4 billion in annual economic impact (See Appendix E). Tourism is frequently cited as a major economic engine of the economy as reflected in a recently released study reporting that \$22.6 billion was directly spent in the state on travel or on behalf of tourism (See Appendix F). There are also agriculture, forestry and various manufacturing segments (auto, aeronautics, tires, etc.), and other recognized contributors to our state’s economic well-being. Rarely, however, has the term “economic engine” been used in reference to the state’s military community. To level the playing field we refer to the June 2019 update of the military economic impact study by Dr. Joseph Von Nessen of the University of South Carolina’s Darla Moore School of Business. That study reflects a **\$25.3 billion** economic impact attributable to the South Carolina military community (See Appendix D). Some of the highlights of that study are as follows:

- **The military community generates 1 out of every 12 jobs in South Carolina**
- **\$25.3 billion in Economic Impact**
- **191,519 jobs**
- **8.4% of South Carolina’s economy**
- **\$10.45 billion in labor income**
- **\$54,701 per year average compensation**
- **\$884.1 million annual tax revenue**

Relevant to the subject of cost of tax revenue noted in the RFA statement of Estimated Fiscal Impact related to the full tax exemption, the \$884.1 million annual tax revenue is meaningful. One can certainly argue that the additional \$9.8 million estimated reduction of tax revenue is wisely spent to support an economic engine that contributes such powerful, positive impact to communities throughout our state as is illustrated by the following:

- **Charleston - \$10.8B**
- **Midlands – \$4.1B**
- **Sumter - \$2.5B**

- **Beaufort - \$2.3B**
- **Upstate - \$2.2B**
- **Aiken/N. Augusta - \$776.3M**
- **Grand Strand - \$642.5M**
- **Rock Hill - \$460.8M**
- **Pee Dee - \$432.4M**
- **TRICARE - \$452.8M\***

\* Of note, this does not yet include the increased economic benefit of the newly implemented Department of Veterans Affairs MISSION Act. (See VA Maintaining Internal Systems and Strengthening Integrated Outside Networks Act (<https://missionact.va.gov/>) of 2018)

See Appendix D. For the full study see [www.scmilitarybases.com](http://www.scmilitarybases.com).

### **REMI Analysis**

In 2019, Dr. Robert T. Carey, Director of the Regional Economic Analysis Laboratory at Clemson University, examined the impact that the full exemption in 2021 would have on our economy at the state and local level. It accounts for the positive impacts predicted to result from changes in tax policy feeding back into state and local tax revenue. The study uses as its basis the retired military service personnel residing in SC in 2017.

- It recognizes that average compensation for military veterans is greater than the general population, a significant plus to the overall economy.
- It evaluated the percentage of those who were under 65 and those 65 and over. It recognized that the percentage of under 65 retirees has declined approximately 1.5% per year since 2013 – not a good trend.

In other words, it recognizes logical intangible elements flowing into the economy that RFA cannot take into account because of its limiting ground rules.

As a practical matter, the REMI does three things:

- It gives some practical economic recognition of the intangibles that will be monetized in the overall economic picture by virtue of the feedback into the economy of the untaxed income.
- It reflects the injection of those dollars into the economic equation.
- It gives three models reflecting the projected impact attributable to the potential number of new retirees that will come into the State from: (a) zero economic migration, (b) 1% economic migration, (c) 2.5% economic migration, and (d) 5% economic migration.

0% This shows that when put into a total economic context, the estimated cost in 2021 based on REMI analysis is \$10,095,000 compared to RFA's projection of \$9,852,765 cost of tax revenue, with minimal increase thereafter.

1% This shows that the REMI estimated cost in 2021 is projected to be \$9,399,000 compared to the RFA's projections of \$9,852,765, and significantly declining thereafter.

2.5% This shows that the REMI estimated cost in 2021 is projected to be \$9,495,000 compared to the RFA's projection of \$9,852,765. However, REMI projects a POSITIVE tax revenue generation in the second year of implementation (TY22) of \$6,012,000 and steadily increasing thereafter.

5% This shows that the REMI estimated cost in 2021 is projected to be \$7,490,000 compared to the RFA's projection of \$9,852,765. However, REMI projects a POSITIVE tax revenue generation in the second year of implementation (TY22) of \$42,165,000 and significantly increasing thereafter.

To be very conservative, we believe that a 1% economic migration number should be achievable if not exceeded. That means the annual decline of under 65 retirees should be mitigated and overall response will turn positive. That assumes passage of the full exemption accompanied by a reasonable level of national communication of its passage in news and military mediums. There are numerous media sources which follow these developments closely, so it should be relatively easy to "spread the word."

See Appendix G

### **The Competitive Environment for Military Retirees**

Because of the positive attributes that accompany military in-migration there is a rapidly growing movement among the states to attract military retiree families. As of September 2019, 30 states impose no taxes on military retirement income. **By passing our exemption bill in 2020, South Carolina will be the 31<sup>st</sup> no-tax state in 2021, and Indiana will be the 32<sup>nd</sup> no-tax state in 2022.**

See Appendix H

### **Under 65 Military Retirees Declining in SC**

As the REMI Report reflects (See Appendix G, page v), as of 2017 there were 53,882 military retirees in SC. The under 65 category shows a historical trend of declining approximately 1.5% per year since 2013, while the 65+ category has grown 2.7% per year. This documented trend demonstrates that SC is losing young retirees, presumably to other states, perhaps in large measure to those 30 states that do not tax their retirement income. Anecdotally, the number one topic we repeatedly hear from Active Duty military personnel from not only South Carolina, but those in North Carolina and Georgia as well, is to pass the Workforce Enhancement bill to make South Carolina a viable destination.

The failure of SC to recognize the potential negative implications of the trend could be costly in our ability to attract and retain younger retirees to our State.

See Appendix G

See Also Appendix I

### **Conclusion.**

The matters discussed above clearly reflect several very compelling points:

- The military presence in SC is a major contributor to the State's economic well-being, funded by the federal government and private industry.

- Military retirees provide a vital economic and human resource boost to the State's workforce, providing extraordinary skill sets to our businesses and communities.
- SC is losing the competition for military retirees. Thirty-one states already have more attractive incentives to entice military retirees to relocate to their state.
- Military retirees typically settle in states and communities in which they are welcomed.
- The economic realities of the state tax revenue strongly suggest that the relatively modest, short-term investment in supporting our military community – and stimulating much needed additions to our undermanned workforce – is an appropriate investment in support of our economy.
- The REMI study and our broad experience dealing with a multitude of prospective future retirees has soundly demonstrated that there **will** be an increase in the number of qualified retirees staying here and coming here if we make our retirement income exemption competitive with the 31 states that today are more military retiree friendly than South Carolina.

There is no guarantee that removing the military retirement tax will lead to an influx of retirees into South Carolina. However, it is literally assured that by doing nothing, South Carolina will absolutely lose a ready, viable and effective workforce to other states. The 'cost' of implementation is minimal compared to the potential that exists for the State, our companies and our communities.

## APPENDIXES

- A. South Carolina Act 272 of 2016
- B. House Bill H.3135 and Senate Bill S.179
- C. Statement of Estimated Fiscal Impact, prepared by the South Carolina Revenue and Fiscal Affairs Office dated January 15, 2019
- D. “The Economic Impact of South Carolina’s Military Community: A Statewide and Regional Analysis,” dated April 2017, revised May 2017, prepared by Dr. Joseph C. Von Nessen, University of South Carolina Darla Moore School of Business, and “The Economic Impact of the S.C. Military Community: 2019 Update,” prepared by Dr. Joseph C. Von Nessen, University of South Carolina Darla Moore School of Business
- E. “Economic Impact of the South Carolina Ports Authority” dated October 2019, prepared by Dr. Joseph C. Von Nessen, University of South Carolina Darla Moore School of Business
- F. “The Economic Contributions of Tourism in South Carolina” dated January 2019, prepared by the U.S. Travel Association
- G. “The Projected Economic and Fiscal Impact of Exempting Military Pension Income From South Carolina Income Tax,” dated January 22, 2019, prepared by Dr. Robert T. Carey, Director, Regional Economic Analysis Laboratory, Clemson University (“REMI”)
- H. National Map Reflecting 50 States Status of States That Do Not Tax Military Retirement Military Retirement Income Exemption, a 2020 Fiscal Year National Perspective
- I. Actuary Tables for Years 2012 - 2018 entitled “Military Retirees Receiving Retired Pay” provided by the Office of Actuary, Department of Defense