

**PUBLIC HEARING ON
BILL 15-184, “PENSION OR OTHER RETIREMENT
INCOME EXCLUSION FROM INCOME TAX
AMENDMENT ACT OF 2003”**

**Before the
Committee on Finance and Revenue
Council of the District of Columbia**

The Honorable Jack Evans, Chairman

**November 12, 2003, 10:00 a.m.
Council Chambers
John A. Wilson Building**



**Testimony of
Dr. Julia Friedman
Deputy Chief Financial Officer
Office of Research and Analysis**

**Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia**

Good morning, Chairman Evans and members of the committee. I am Julia Friedman, deputy chief financial officer for the Office of Research and Analysis, and I am here to present the views of the Office of the Chief Financial Officer (OCFO) on Bill 15-184, the “Pension or Other Retirement Income Exclusion from Income Tax Amendment Act of 2003.”

Under current District law, persons who are 62 years of age or older may exclude from their District gross income up to \$3,000 of their pension, military retired pay, or annuity income received from the District of Columbia or the federal government. If the annual pension, retired pay or annuity amount is less than \$3,000, the exclusion is limited to the amount received during the taxable year.

Bill 15-184 would increase the maximum amount of the exclusion. For persons who are 62 to 64 years of age, the proposed legislation would increase the exclusion from \$3,000 to \$10,000. For persons 65 years of age or older, the maximum amount of the exclusion would be increased from \$3,000 to \$20,000. Survivor benefits received from the District or federal government would remain wholly excluded from gross income.

Impact of Bill 15-184

The fiscal impact of the proposed legislation on the District’s budget would be significant. At the current maximum exclusion level of \$3,000, the revenue loss to the District is an estimated \$9.5 million annually. The estimated revenue loss under the proposed bill would be an additional \$30.2 million annually, or \$122.0 million for the Fiscal Year 2004 through Fiscal Year 2007 period.

Many states provide state tax exclusions for retirement and pension income and most exclude Social Security income, opting not to tax the Social Security amount taxed by the federal government. The District also excludes Social Security benefits for retired workers, with a revenue loss of approximately \$33 million annually, as noted in the tax expenditure analysis included in the FY 2003 Budget submission to Congress.

A number of states provide tax exclusions for private pension and retirement income while others, like the District, limit the exclusion to pension income received from federal, state and/or local governments. The maximum allowable pension exclusion in Maryland is \$18,500 from all sources. In Virginia, a taxpayer age 65 or over may exclude \$12,000 of pension income from private and government sources, and \$6,000 between the ages of 62 and 65.

The Office of Tax and Revenue reviewed Bill 15-184 and recommends technical changes to keep the wording of the amendment consistent with the current statute. They are attached as an appendix to this testimony.

Thank you, Mr. Chairman, for this opportunity to testify. I am available for any questions you may have.

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Appendix Proposed Technical Corrections

The Office of Tax and Revenue has reviewed Bill 15-184, and recommends the following technical corrections:

- a. In the bill’s proposed sub-subparagraph (i):
 1. Strike the word “actual” and insert the phrase “net taxable” in its place.
 2. Strike the phrase “or annuity” and insert the phrase “or annuity income” in its place.
 3. Strike the word “and” and insert the word “or” in its place.
- b. In the bill’s proposed sub-subparagraph (i-I):
 1. Strike the word “actual” and insert the phrase “net taxable” in its place.
 2. Strike the phrase “or annuity” and insert the phrase “or annuity income” in its place.
 3. Add the word “and” at the end of the sentence.
- c. In the statute’s actual sub-subparagraph (ii), strike the phrase “pay or annuity” and insert the phrase “pay, or annuity income” in its place.