



**State Representative Erica C. Crawley
Ohio House District 26
House Bill 18 Sponsor Testimony (as prepared)**

Crawley

Good Afternoon Chairman Terhar, Vice Chair Roegner, Ranking Member Williams, and members of the Senate Ways & Means Committee. Thank you for the opportunity to provide sponsor testimony on House Bill 18, *The Ohio Veteran's Exemption Payment Act*, legislation that would exempt veteran's disability severance pay from income tax. As a veteran of the United States Navy, I am proud that my joint sponsor, Representative Vitale, and I have introduced a bill that would remove a financial burden to veterans who honorably served their country.

We all know that many states have adopted federal adjusted gross income as a starting point for the state income tax base, and Ohio is no different. With that in mind, disability severance payments or DSPs exempt under federal law are also exempt under Ohio law. House Bill 18 takes an additional step further and exempts DSPs regardless if they are exempt under federal law. The current federal exemption applies only if a veteran qualifies for one of the following¹:

- (1) The veteran was enlisted before September 24, 1975²;
- (2) The veteran's injury was combat related – meaning it resulted directly from an armed conflict, took place while engaged in extra-hazardous service, took place under conditions simulating war, for example, training exercises, or was caused by an instrumentality of war; or

¹ https://www.dfas.mil/dsp_irs

² <https://www.hrblock.com/tax-center/filing/are-veterans-benefits-taxable/>

(3) The veteran is entitled to receive disability compensation (based on the veteran's disability rating and number of dependents) from the Department of Veterans Affairs (VA).

If the DSP amount is computed based on the veteran's disability rating, it is exempt from both federal and state income tax. If the DSP amount is computed based on the veteran's years of service it is taxed at the federal and state level as ordinary retirement income. House Bill 18 would exempt all DSPs from Ohio income tax regardless of how the payment amount is computed. Additionally, it would authorize a one-time, refundable tax credit to veterans who have paid state income tax on disability severance payments dating back to January 17, 1991, mirroring the federal statute—The Combat-Injured Veterans Tax Fairness Act of 2016.

The change we seek to make with HB 18 addresses an inconsistency in the way Ohio treats military retirement income. Generally, taxpayers can deduct "retired personnel pay" in computing Ohio adjusted gross income for state income tax purposes.³ Yet, DSPs computed based on years of service remain taxable. By exempting all DSPs, the bill ensures that all military retirement pay is treated the same regardless of whether it is received periodically or as a one-time severance payment.

Now for a point of personal privilege, my father served in the United States Army during the Vietnam War. Upon his separation from the military, he received a disability severance payment and it was taxed. As a soldier returning home from a gruesome war, who began to show signs of Post-Traumatic Stress Disorder, having his source of income taxed made his circumstances much more difficult to handle. I am sure my father's story is that of many veterans in the State of Ohio. According to the United States Department of Veterans Affairs 2017 study, there are 774,935 veterans in the State of Ohio with 134,742 receiving disability compensation. It is my hope we can move forward with this legislation and continue to be a state that truly takes care of its veterans.

Thank you, Chairman Terhar and members of the House Ways & Means Committee, for the opportunity to give sponsor testimony on HB 18, *The Ohio Veterans Exemption Payment Act*. I am proud to note that House Bill 18 passed unanimously out of committee and the House Floor with bipartisan support. My joint sponsor and I are happy to answer any questions the committee may have.

³ (See O.R.C. 5747.01(A)(26))