

States Vie to Lure Military Retirees: Proposed tax breaks on veteran pensions aim to attract skilled workers; Critics cite lost revenue.

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With a surge of retirements expected as the nation's armed forces contract after two wars, lawmakers in 19 states are seeking to create or expand income-tax breaks for military pensions in hopes of attracting highly skilled veterans. More than 65 such bills are pending in statehouses, according to the National Conference of State Legislatures, an uptick from recent years. Last year, Iowa enacted a full exemption and Nebraska a partial break for recent military retirees. The plans face some resistance from critics who say states can't afford the loss of revenue. Others question the fairness of giving veterans special breaks unavailable to most retirees.

Nationwide, nearly 2 million military retirees received pensions as of September, Defense Department figures show. The federal government taxes the pensions of non-disabled veterans as ordinary income, generally at a much higher rate than the states that tax them, and Washington isn't expected to offer breaks anytime soon.

In Maryland, Philip Campbell, a 42-year-old Navy commander based in Annapolis, hopes his state soon joins the ranks of states that don't tax any military pension income. Currently, only the first \$5,000 is excluded. He expects to retire next year and move his family to Tennessee, which doesn't tax most personal income. Once he starts drawing his roughly \$50,000-a-year military pension, he plans to launch a second career in management consulting. But he might stay put if Maryland lawmakers approve a full exemption. "The decision gets a lot harder," he said. The change would save him \$3,000 a year, he estimated.

Maryland Gov. Larry Hogan, a Republican elected last fall, is pushing for a total exemption. Although similar measures have stalled for years, this is the first time a governor has made the pitch, said Delegate Sheila Hixson, a Democrat who chairs the state's House Ways and Means Committee. Even so, she said, "it comes down to money."

State legislative analysts project that exempting military pensions would cost Maryland \$34 million a year and local governments \$22 million a year.

In Iowa More than 50,000 veterans in the state get pensions, and many have found second careers in the area's large federal contracting sector.

Iowa Gov. Terry Branstad, speaking to the Iowa Legislature in Des Moines in January, pushed for a full state tax break for military pensions last year.

The Army, the largest armed-services branch, had roughly 500,000 soldiers last fall, and the Pentagon projects a drop to 450,000 by fall 2018. The move to shrink the military is coming under scrutiny, though, as the U.S. steps up its fighting against Islamic State militants in the Middle East.

Active-duty service members can draw a pension after 20 years, and they have many residency choices to shield that pay. Nearly half of all states don't tax military retirement pay or don't tax personal income generally, and 20 states partially exempt military pensions, in some cases with minimum-age requirements, the National Conference of State Legislatures said.

Seven states offer no exemption. They span the nation from Rhode Island to North Dakota and California, which has one of the largest populations of military pension recipients at roughly 150,000, according to the Defense Manpower Data Center.

About 19% of a typical cohort of military entrants attains 20 years of active-duty service and become eligible for a pension, according a 2014 Defense Department report. Exemption backers say focusing on lost tax dollars ignores the myriad of economic benefits of retaining and recruiting veterans. Proponents say the policies also acknowledge veterans' sacrifices.

In Minnesota, state Sen. Paul Gazelka said he hopes a projected state budget surplus will finally ease passage of his full-exemption proposal. The state now offers a \$750 tax credit. Mr. Gazelka, a Republican, said his state is at a competitive disadvantage because two neighbors, Iowa and Wisconsin, don't tax military pensions.

A recent analysis by Minnesota legislative researchers didn't reveal a disadvantage. It found that Wisconsin's military retiree population hasn't changed much in percentage terms, compared to Minnesota's, since 2001, when Wisconsin enacted its full exemption.

Last year, Iowa moved from a partial tax break to a full exemption at Republican Gov. Terry Branstad's urging. He said the message to veterans in their 40s and 50s is: "Listen, we have some very attractive professional jobs in Iowa. We won't tax your pension." Kevin White, a recently retired Army major living in Ames, Iowa, figures he will save about \$2,700 a year, a welcome boost with two children nearing college age. Mr. White, 45, decided to stay in Iowa, where he has a new job as a project manager. The expanded pension tax break "helped make the decision, but it wasn't the main factor," he said. The exemption is expected to cost Iowa \$9 million a year. Mr. Branstad considers that "well worth it" in a \$7 billion state budget.

But Iowa legislator Bruce Hunter opposes giving military retirees preferential treatment. Instead, he thinks all forms of pension pay should go untaxed-for lower-income individuals. "Let's give tax breaks to people that really need it," said Mr. Hunter, a Democrat and one of only two state representatives who voted against the exemption bill.

In Rhode Island, state Rep. Robert Craven Sr., a Democrat, has a bill to make all retirement income tax-exempt, military and non-military, but only for those 65 and over. He said younger military retirees are less likely to need such a break because they have many working years left.

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