

S.226

Introduced by Senator Benning

Referred to Committee on

Date:

Subject: Taxation; income tax; exemptions; military retirement pay

Statement of purpose of bill as introduced: This bill proposes to exempt from State income taxation military retirement pay. The exemption is phased in over a five-year period.

An act relating to the phased-in exemption from State income taxation of military retirement pay

It is hereby enacted by the General Assembly of the State of Vermont:

Sec. 1. 32 V.S.A. § 5811(21) is amended to read:

(21) "Taxable income" means, in the case of an individual, federal adjusted gross income determined without regard to 26 U.S.C. § 168(k) and:

(A) ~~Increased~~ increased by the following items of income (to the extent such income is excluded from federal adjusted gross income):

(i) interest income from non-Vermont state and local obligations; and

(ii) dividends or other distributions from any fund to the extent they are attributable to non-Vermont state or local obligations; and

1           (B) ~~Decreased~~ decreased by the following items of income (to the  
2 extent such income is included in federal adjusted gross income):

3                 (i) income from U.S. government obligations;

4                 (ii) with respect to adjusted net capital gain income as defined in  
5 26 U.S.C. § 1(h) reduced by the total amount of any qualified dividend  
6 income: either the first \$5,000.00 of such adjusted net capital gain income; or  
7 40 percent of adjusted net capital gain income from the sale of assets held by  
8 the taxpayer for more than three years, except not adjusted net capital gain  
9 income from:

10                (I) the sale of any real estate or portion of real estate used by  
11 the taxpayer as a primary or nonprimary residence; or

12                (II) the sale of depreciable personal property other than farm  
13 property and standing timber; or stocks or bonds publicly traded or traded on  
14 an exchange, or any other financial instruments; regardless of whether sold by  
15 an individual or business; and provided that the total amount of decrease under  
16 this subdivision (21)(B)(ii) shall not exceed 40 percent of federal taxable  
17 income; ~~and~~

18                (iii) recapture of State and local income tax deductions not taken  
19 against Vermont income tax; and

20                (iv) the amount of taxable payments received as military  
21 retirement pay as calculated under section 5830e of this title; and

\* \* \*

Sec. 2. 32 V.S.A. § 5813(w) is added to read:

(w) The statutory purpose of the phased-in exemption of federally taxable military retirement pay in section 5830e of this title is to recognize the military service of Vermonters who derive part of their income in the form of military retirement pay.

Sec. 3. 32 V.S.A. § 5830e is added to read:

§ 5830e MILITARY RETIREMENT PAY

Taxable income, as that term is used in subdivision 5811(21) of this title, shall not include the following amounts:

(1) 20 percent of federally taxable military retirement pay for returns filed for taxable year 2019;

(2) 40 percent of federally taxable military retirement pay for returns filed for taxable year 2020;

(3) 60 percent of federally taxable military retirement pay for returns filed for taxable year 2021;

(4) 80 percent of federally taxable military retirement pay for returns filed for taxable year 2022; and

(5) 100 percent of federally taxable military pay for returns filed for taxable year 2023 and each taxable year thereafter.

1      Sec. 4. EFFECTIVE DATE

2            This act shall take effect on January 1, 2019 and apply to taxable year 2019  
3            and thereafter.