

# Vermont Legislative Joint Fiscal Office

One Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • Fax: (802) 828-2483

Date: January 9, 2018

Prepared by: Graham Campbell

## **Background and Preliminary Estimate: S.226**

### **S.226: An act relating to the phased-in exemption from State income taxation of military retirement pay**

**Brief description of bill:** Vermont taxable income would be reduced by 20% of federally taxable military retirement pay progressively from 2019 to 2023. In other words, in taxable year 2019, the exemption would be 20%. In taxable year 2020, it would be 40% and so on. In taxable year 2023 and thereafter, there would be a 100% exemption of military retirement pay.

### **Background:**

9 states do not have an income tax. In addition to these, 18 states do not tax military retirement pay:

Alabama	Iowa	Minnesota	Pennsylvania	Connecticut	Massachusetts
Arkansas <sup>1</sup>	Kansas	Mississippi	West Virginia <sup>1</sup>	Hawaii	New York
Illinois	Louisiana	New Jersey	Wisconsin	Maine	Ohio

An additional 15 states have special military retirement pay exemptions:<sup>2</sup>

Arizona	Indiana	Nebraska	District of Columbia	Idaho
Colorado	Kentucky	North Carolina	Michigan	Missouri
Delaware	Maryland	Oklahoma	Oregon	South Carolina

The level of military retirement benefits are determined by a combination of the number of years in the service, the year when the individual joined the service, and the level of pay you received while enlisted.

According to the latest figures from the Department of Defense Office of the Actuary, there were 3,583 military retirees in Vermont receiving military retirement payments from the Department of Defense. The average annual retirement payment was approximately \$21,750.<sup>3</sup> The number of military retirees in the future will depend on the age of the population and the number of veterans.

### **JFO Preliminary Estimate**

Based upon data from the Department of Defense and a 3.3% effective tax rate going forward, JFO estimates the following impact to personal income tax revenues:

Year	2019	2020	2021	2022	2023
Estimate (in millions)	-0.5 to -0.6	-1.1 to -1.3	-1.7 to -1.8	-2.3 to -2.5	-2.9 to -3.0

<sup>1</sup> Effective 2018

<sup>2</sup> <https://www.military.com/benefits/military-pay/state-retirement-income-tax.html>

<sup>3</sup> [http://actuary.defense.gov/Portals/15/Documents/MRS\\_StatRpt\\_2016%20v4%20FINAL.pdf?ver=2017-07-31-104724-430](http://actuary.defense.gov/Portals/15/Documents/MRS_StatRpt_2016%20v4%20FINAL.pdf?ver=2017-07-31-104724-430)