

WHITE PAPER

Legislation to Exempt Military Retirement Pay from Vermont State Income Tax

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Proposals to exempt Military Retiree Pay from Vermont state income tax are not new and date back to the Kunin administration. Various proposals have been presented to state legislators and the Governors of both parties over the last three decades. Governor Scott often references the 6-3-1 demographic snapshot for Vermont with the 6 being the number of workers that leave the state's workforce each day for opportunities elsewhere. There has been much discussion in our state about affordability, the cost of living, and taxes (both income and property).

Thirty-Three states currently offer a partial, or total, exemption from income taxes for military retirement pay. Additionally, nine states do not have a personal income tax.¹ Our neighbors in New Hampshire, Maine, New York, and Massachusetts all enjoy having their military retirement pay exempt from state income tax.

Not unlike the Vermont National Guard, which loses recruits to surrounding states offering free college tuition for Guard persons at state institutions (NY, NH, MA and Maine), a not insignificant number of Vermont veterans and veteran-retirees, who have been contributing first-rate citizens, move to surrounding states, prior to, or at the time they retire denying the state's economy and businesses millions of dollars. This year, West Virginia and Arkansas joined the number of states that do not tax military retirement pay.

¹ <https://www.military.com/benefits/military-pay/state-retirement-income-tax.html>

Vermont has routinely ranked near the bottom of states for its support to retirees and their families. In 2017, for example, Vermont was named the fourth 'Least Tax-Friendly State for Retirees' by Kiplinger.com.² While some progress has been made, Vermont continues to be in an unenviable position to attract or retain military retirees to the state and misses the opportunity to attract large sums of federal dollars these citizens would bring to the state's economy. For FY 2016 3,583 Vermont military retirees received nearly \$78M in income for the Department of Defense.³

It is recognized that there are undoubtedly risks associated with reducing tax revenues in the short term with the promise of financial dividends in the long term, but it would show a proactive investment in the future of our state.

If the goal is to attract a ready, willing, and able workforce to the state; this tax exemption is a step in the right direction. Military retirees can be as young as 38 years old when they complete 20 years of qualifying service and look for a place to settle down with their families and start a second career. This exemption is a step in the right direction to reverse this demographic.

²<https://www.kiplinger.com/slideshow/retirement/T006-S001-least-friendly-states-for-retirees-taxes/index.html>

³ http://actuary.defense.gov/Portals/15/Documents/MRS_StatRpt_2016%20v4%20FINAL.pdf?ver=2017-07-31-104724-430 Pg. 28