

Vermont House Bill 846-Exemption of Military Retirement Pay from State Tax

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Berkshire, VT

A. Military Retirement Pension Fact Sheets

<https://www.sapling.com/7489957/states-tax-military-retirement-pay>

A veteran's gross military retirement pay depends on their rank and time in service when they retire. His or her net military retirement pay depends in part on the state in which they live. Some states don't tax income at all. Still others don't tax retirement income -- though the U.S. government still collects federal income tax. Military retirees by default don't pay income tax on their retirement pay in those states. Other states offer specific income tax breaks on military retirement pay. All told, there are only eight states that offer no tax breaks on military retirement -- California, Rhode Island, North Dakota, Connecticut, Minnesota, Nebraska, Vermont and Virginia.

States with No Tax on Military Retirement

Seven states have no income tax at all-- Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming. In addition, Tennessee and New Hampshire only tax passive income from dividends and interest, which does not directly impact military retirement pay. In all nine states, no military retirement checks will be collected by the tax authorities.

Additionally, 13 states that do have an income tax exempt military retirement pay. These states are Alabama, Hawaii, Illinois, Kansas, Louisiana, Massachusetts, Michigan, Mississippi, New Jersey, New York, Ohio, Pennsylvania and Wisconsin.

Tax Breaks on Military Retirement Pay

In all other states, you will pay state income tax on your military retirement pay, but with varying levels of tax breaks. The amount of military retirement income exempt from state income tax varies significantly from state to state, ranging from Delaware, which excludes up to \$2,000 in military retirement pay from taxes for retirees under 60, to Georgia, which may exclude up to \$65,000 in some cases.

B. Two More States Will Exempt Military Retired Pay From State Income Tax

By: Amanda Dolasinski

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<https://www.moaa.org/content/publications-and-media/news-articles/2019-news-articles/2-more-states-will-exempt-military-retired-pay-from-state-income-tax/>

Is your state still fully taxing retirement pay? MOAA (Military Officers Association of America's) National serves in an advisory capacity for state-specific issues such as income tax exemption. Please contact your local MOAA council as state legislation must originate at the state level.

North Dakota and Indiana are the latest to join the list of states that have approved at least a partial exemption on taxing military retiree income.

Both states will offer full exemptions on military pay as well as surviving spouse benefits. However, neither state will extend exemptions to retirees of the U.S. Public Health Service or the National Atmospheric and Oceanic Administration.

Almost every state offers at least a partial exemption on state income tax for military retirees. MOAA's Military State Report Card and Tax Guide tracks changes in these benefits, with full breakdowns of state tax policy available to Premium and Life members.

In North Dakota's historic decision, military retirees will move from full taxation to full exemption on their state income taxes.

The bipartisan legislation, which was signed into law by Gov. Doug Burgum in April, provides the exemption for armed forces beginning in the 2019 tax year. The exemption helps level the regional playing field, as North Dakota had been competing with neighboring states Minnesota, which has a state income tax exemption for such income, and South Dakota, which doesn't have a state income tax.

"This legislation promotes workforce participation by military personnel in North Dakota after retirement, improves our state's competitiveness for federal military investments, and most importantly, honors the courageous service of our military servicemen and women," Burgum said.

Each veteran would receive an average of \$550 in tax relief, State Rep. Steve Vetter, the bill's author, told the Grand Forks Herald. That would reduce state general revenues by about \$3 million, but Vetter and other supporters say keeping a veteran and his or her family in the state provides benefits, financial and otherwise, that will make up the lost money.

"We want to retain our military members after service to fill our many vacant job openings, keep their skills to use on our main street businesses and attend our institutes of higher learning," said Lonnie Wangen, commissioner of North Dakota's Department of Veteran Affairs. "I believe this exemption will have a positive impact on our economy, which will outweigh the cost of the exemption."

In Indiana, the exemption will be phased in over four years.

Previously, Indiana offered only a partial exemption for retirees – about \$6,250. Under the new law, the exemption is increased by about 25 percent each year until 2023, when the exemption will total 100 percent.

Exempting military retirement benefits from Indiana's 3.23% income tax will reduce state revenue by about \$15 million a year when fully implemented in the 2023 budget year, according to a report. The exemption will encourage military personnel to stay in – or consider moving to – Indiana, legislators have said.

Col. Andrew F. Gothreau, USA (Ret), president of MOAA's Indiana Council of Chapters, said the council supported the bill through the Military/Veterans Coalition of Indiana, which regularly met with lawmakers to lobby for its passage.

Gothreau said the legislation is a victory but is disappointed it will take four years to enact.

"We support the new law because it will encourage more veterans to retire in Indiana," he said. "However, we are discouraged that the law will not cover 100 percent of military retired income until 2023. At present, Indiana does not rate very high as a 'military friendly' state. Hopefully, the new law will change this recognition."

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State-by-State Guide to Taxes on Retirees

https://www.kiplinger.com/tool/retirement/T055-S001-state-by-state-guide-to-taxes-on-retirees/index.php?map=&state_id=46&state=Vermont

C. Vermont is rank 2nd in least tax-friendly behind number 1 California.

You'll need plenty of firewood to make it through Vermont winters, and plenty of money for the tax bill, too. The Green Mountain State has a steep top income tax rate, and most retirement income is taxed. The state also taxes all or part of Social Security benefits for single residents with federal adjusted gross income over \$45,000 (over \$60,000 for married couples filing a joint return).

The average sales tax rate is only 6.22%, and food for home consumption, clothing, and nonprescription drugs are all exempt, limiting this tax's effect (remember, no-sales-tax New Hampshire is next door).

Property taxes are the seventh-highest in the U.S. Homeowners age 65 and older may qualify for a tax credit worth 24% of the Federal Elderly and Permanently Disabled Tax Credit if their household income does not exceed a certain level.

Vermont also taxes estates that exceed \$2.75 million in value. The tax is imposed at a flat 16% rate.

State Sales Tax

6% state levy. Municipalities can add 1% to that, but the average combined rate is 6.22%, according to the Tax Foundation. A wide range of clothing is exempt year round.

Income Tax Range

Low: 3.35% (on up to \$38,700 of taxable income for singles and up to \$64,600 for joint filers)

High: 8.75% (on taxable income over for \$195,450 for singles and up to \$237,950 for joint filers)

Effective tax rate: 3.35% for single filers, 4.81% for joint filers

Social Security

Social Security benefits are exempt for single filers making less than \$45,000 a year (\$60,00 for joint filers). This break phases out as income rises and expires for single filers making more than \$55,000 (\$70,000 for joint filers.)

Exemptions for Other Retirement Income

Railroad Retirement benefits are exempt.

Property Taxes

In Vermont, residents pay \$1,908 in taxes per \$100,000 of assessed home value.

Tax breaks for seniors: If you are 65 and older or disabled, you may qualify for a Vermont tax credit that is worth 24% of the Federal Elderly and Permanently Disabled Tax Credit, as long as you do not exceed certain income limitations.

Vehicle Taxes

Sales tax due on purchases.

Inheritance and Estate Taxes

Estate tax is imposed on estates exceeding \$2.75 million. The rate is a flat 16%. There is no inheritance tax.