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H.185

Introduced by Representatives Birong of Vergennes, Fagan of Rutland City,  
Austin of Colchester, Batchelor of Derby, Brumsted of  
Shelburne, Coffey of Guilford, Donahue of Northfield, Grad of  
Moretown, Gregoire of Fairfield, Hango of Berkshire, Harrison  
of Chittenden, Morgan, L. of Milton, Morrissey of Bennington,  
Mrowicki of Putney, Nicoll of Ludlow, Norris of Sheldon,  
Noyes of Wolcott, Ode of Burlington, Pajala of Londonderry,  
Savage of Swanton, Scheuermann of Stowe, Sibia of Dover,  
Smith of Derby, and Sullivan of Dorset

Referred to Committee on

Date:

Subject: Taxation; income tax; exemption; military retirement pay; survivor  
benefits

Statement of purpose of bill as introduced: This bill proposes to exempt a  
portion of U.S. military retirement pay from Vermont personal income tax.

This bill would also exempt all U.S. military survivor benefit income received  
by the surviving spouse of a deceased service member.

An act relating to exempting U.S. military retirement pay and survivor  
benefit income

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

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

3 (B) Decreased by the following items of income (to the extent such  
4 income is included in federal adjusted gross income):

5 \* \* \*

6 (iv) the portion of federally taxable benefits received under the  
7 federal Social Security Act that is required to be excluded under section 5830e  
8 of this chapter; ~~and~~

9 (v) the amount of any federal deduction or credit that the taxpayer  
10 would have been allowed for the cultivation, testing, processing, or sale of  
11 cannabis or cannabis products as authorized under 18 V.S.A. chapter 86 or  
12 7 V.S.A. chapter 33 or 37, but for 26 U.S.C. § 280E; ~~and~~

13 (vi) the portion of federally taxable U.S. military retirement pay  
14 that is required to be excluded under section 5830f of this chapter; and

15 (vii) federally taxable U.S. military survivor benefit income  
16 received by the surviving spouse of a deceased service member; and

17 \* \* \*

18 Sec. 2. 32 V.S.A. § 5811(21)(B)(v) is amended to read:

19 (v) the amount of any federal deduction or credit that the taxpayer  
20 would have been allowed for the cultivation, testing, processing, or sale of

1 cannabis or cannabis products as authorized under 7 V.S.A. chapter 33 or 37,  
2 but for 26 U.S.C. § 280E; ~~and~~

3 Sec. 3. 32 V.S.A. § 5813(y) is added to read:

4 (y) The statutory purpose of the exemptions of federally taxable U.S.  
5 military retirement pay and survivor benefit income in subdivisions  
6 5811(21)(B)(vi) and (21)(B)(vii) and section 5830f of this title is to recognize  
7 the military service of Vermonters who derive part of their income from  
8 military retirement pay or survivor benefit income.

9 Sec. 4. 32 V.S.A. § 5830f is added to read:

10 § 5830f. MILITARY RETIREMENT PAY

11 (a) The portion of federally taxable U.S. military retirement pay received  
12 by each taxpayer during the taxable year to be excluded from taxable income  
13 under subdivision 5811(21)(B)(vi) of this chapter shall be determined as  
14 follows:

15 (1) If the taxpayer's federally taxable U.S. military retirement pay is less  
16 than \$35,000.00, then \$25,000.00 of the taxpayer's federally taxable U.S.  
17 military retirement pay shall be excluded.

18 (2) In addition to the exclusion allowed in subdivision (1) of this  
19 subsection, if the taxpayer's federally taxable U.S. military retirement pay is  
20 greater than \$25,000.00 but less than \$35,000.00, the percentage that exceeds  
21 \$25,000.00 to be excluded shall be determined by:

1           (A) subtracting the taxpayer's federally taxable U.S. military  
2           retirement pay that exceeds \$25,000.00 from \$35,000.00;

3           (B) dividing the value under subdivision (A) of this subdivision (2)  
4           by \$10,000.00; and

5           (C) multiplying the value under subdivision (B) of this subdivision  
6           (2) by the amount of the federally taxable U.S. military retirement pay that  
7           exceeds \$25,000.00.

8           (3) If the taxpayer's federally taxable U.S. military retirement pay is  
9           equal to or greater than \$35,000.00, no amount of the federally taxable U.S.  
10           military retirement pay shall be excluded under subdivision 5811(21)(B)(vi) of  
11           this chapter.

12           (b) For the purposes of this section, married individuals filing joint returns  
13           shall each be treated as a separate taxpayer subject individually to the dollar  
14           thresholds under subsection (a) of this section.

15       Sec. 5. EFFECTIVE DATES

16           This act shall take effect on January 1, 2022 and apply to taxable years  
17           beginning on and after January 1, 2022, except Sec. 2 (taxable income  
18           definition), which shall take effect on January 1, 2023 and apply to taxable  
19           years beginning on and after January 1, 2023.