

Military Retirement Pay

VERMONT DEPARTMENT OF TAXES

Military Retirement Pay: Other States

- ▶ VT, CA, VA tax it fully
- Fully exempt it or have no income tax:
- AL, AK, AZ, AR, CT, FL, HI, IL, IN, IA, KS, LA, ME, MA, MI, MN, MS, MO, NE, NV, NH, NJ, NY, NC, ND, OH, PA, SD, TN, TX, UT, WA, WV, WI, WY
- The following states offer partial exemptions:
- CO, DE, GA, ID, KY, MD, MT, NM, OK, OR, RI, SC

What About Other Pensions?

- It's not a debate about which service is more deserving
- Federal law (backed up by SCOTUS) prohibits exempting state pensions without exempting federal pensions
- In *Davis v. Michigan*, 489 U.S. 803 (1989), the Court held that states could not tax federal retirement benefits if they exempted their own state retirement benefits from taxation
- Therefore, Vermont is limited in the state pensions it could exempt without having to exempt federal pensions as well

When Does it Break Even?

- GF foregone revenue \$3.25m annually
- JFO issue brief estimates 640 new military retirees must move to the state to break even
- This analysis uses individual data at average of 48k income, same ACCD analysis shows a family with \$150k income brings in \$16,750 in taxes
 - That would only take 194 families at this level
- True number may be in the middle

Does it Impact Decision Making?

- Iowa
 - Enacted military retirement exemption in 2014
 - Change in military retirees:
 - 2012: 122
 - 2013: 152
 - 2014: 295 (enacted)
 - 2015: 234
- Arkansas
 - Enacted military retirement exemption 2018
 - 2016: (201)
 - 2017: (218)
 - 2018: (46) (enacted)
 - 2019: (52)