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February 2022

The External Benefits of Repealing the Tax on Military Retirement Income in Vermont

Executive Summary

The Vermont Legislative Joint Fiscal Offices February 2021 report on the estimated effects of eliminating the state taxation of military retirement income evaluated the direct fiscal impact of the elimination of this tax. However, in its evaluation, it neglected the external benefits of increased Veteran migration to Vermont, such as the positive impacts to the workforce from Veterans pursuing second careers. Additionally, it did not include Spousal considerations that on top of offsetting the expenditure of eliminating the tax, would provide additional support for the workforce. The external benefits of increased Veteran migration to Vermont should be explored and considered when addressing whether to repeal the tax on military retirement income.

Why Should we be Interested in Veteran Migration?

The onset of the pandemic in 2020 caused disruptions to the workforce which Vermont is continuing to struggle from. Vermont is currently at a labor force participation rate of 61.3 percent¹. The continuation of the COVID pandemic and an increased reliance on public benefit programs has contributed to the current labor force shortage, however Vermont's aging population has also contributed to the shortage and will continue to make recovery difficult. 20 percent of Vermont's population is over the age of 65, and the state needs increased migration from young individuals and families who contribute positively to the workforce and counter the increasing population of retirement-aged individuals². By focusing on increasing Veteran migration to Vermont, the state could positively impact the workforce through the addition of military spouses and Veterans. This could also impact the age demographic by increasing the migration of young families looking to settle after military retirement. However, with taxation still being applied to military retirement income, Vermont is less attractive to Veterans looking to settle long-term.

Second Career for Veterans

The age demographics of current Veterans are getting younger. Half of the current Veterans in the United States are under the age of 65, and 75 percent of Veterans from the post 9/11 era are under the age of 45³. Additionally, approximately 200,000 service members retire from the Military and transition to civilian life every year⁴.

Veterans are valuable for private sector employers who often offer programs and incentives to attract Veterans. The trucking industry often values Veterans and offers accessibility through programs such as the Military Skills Test Waiver Initiative. This initiative serves as a partnership between the DoD, the DOL, the Federal Motor Carrier Safety Administration, and state licensing

offices, allowing Veterans to obtain a commercial driver's license based on their prior military experience⁵. Private sector companies also often set goals to hire a certain percentage of new hires to be Veterans or military spouses⁶. Employers value Veterans and their families, and often prioritize them in the hiring process.

Upon military retirement, entrepreneurship has become a growing avenue for Veterans exploring a second career. Veteran-owned businesses make up 9 percent of business ownership in the U.S with 2.5 million Veteran-owned businesses. Additionally, Veterans are 45 percent more likely to pursue self-employment after military retirement⁷. This statistic suits Vermont, as it holds a small and local business-orientated economy that often serves as a main attraction to the state. Veterans looking to pursue entrepreneurship and business ownership after retirement may find Vermont as a suitable location to settle and start a business in.

The military makes the transition process an area of attention when providing resources to service members. The primary service it provides to service members transitioning back to civilian life is the "Transition Assistance Program" (TAP). TAP is a service available to all service members, and provides resources such as job skills assessments, resume-writing assistance, online resume-writing services, and employment network workshops. TAP's purpose is to assist the transition process and to help Veterans find a suitable second career to pursue after service. TAP has been effective and well utilized among transitioning service members, with 1.8 million service members and their family members finding assistance from the program between 2013 and 2016⁸.

Military Spouses

47.6 percent of the military are married, and 90.7 percent of military spouses are female⁹. This population is generally young with 55.2% of active-duty service members spouses being 30 years old or younger¹⁰. Military spouses have a 2020 unemployment rate of 22 percent¹¹. Unemployment among military spouses is often attributed to barriers associated with military duty with nearly half of military spouses citing their service member's job demands as a primary barrier to employment¹². These barriers include single-parent childcare (44 percent of military spouses cite this as the primary barrier), frequent moves, and job markets that are unable to meet job demand near military bases¹³. Military spouses are also often unable to find appropriate jobs that meet their qualifications with 35 percent of military spouses stating they were overqualified for their job¹⁴. This issue was more prominent for non-parental spouses, with over half of military spouses without children citing overqualification as the top barrier to meaningful employment¹⁵. Military spouses are valuable to the workforce, however. Education rates among military spouses are high, with 88 percent having some form of post-high school education, 34 percent having a four-year degree, and 15 percent having a postgraduate degree¹⁶. Additionally, more than 30 percent of military spouses who are employed work in licensed or certified fields such as teaching or nursing¹⁷. These professions are important, especially in the context of the COVID-19 pandemic and should be a focus when attracting individuals to the workforce.

Military spouses provide a good opportunity to boost and develop the workforce. As noted, this demographic has high unemployment during the period of their spouse's active service due to barriers associated with military service. Once these barriers are lifted due to their spouse's retirement, this demographic is primed to enter the workforce to provide primary income for their families while their spouse undergoes the transitioning process. Additionally, this demographic has a high rate of secondary education, as well as several military-funded programs such as the Transitioning Assistance Program (TAP) made available to assist with job sourcing and the employment search process¹⁸.

Legislation in Place to Assist Veteran and Spouse Employment in Vermont

Vermont has legislation in place that can improve accessibility to employment for transitioning Veterans and their family members. Vermont Act 177, which was signed in 2014, provides "Expedited temporary license by endorsement" to a service member, Veteran (under Act 177, this refers only to former service members discharged no more than 2 years before the submission of an application), or military spouse (under Act 177, this refers to a spouse of a former service member discharged no more than two years before the spouse's submission of an application) who held a valid license issued in another state or certification from the NREMT¹⁹. This expedited temporary license is issued within 60 days of application and remains valid for 6 months, or until a permanent license is granted or denied²⁰. The Act ensures that the individual's application for a permanent license is processed before the expedited temporary license expires²¹. In addition to providing temporary licenses for Veterans and military spouses, Act 177 also allows service members to use relevant experience from service as well as military training to meet qualification requirements that are present in the licensure process²². Given that Vermont is currently lacking employment in licensed professions, this act has value in allowing these industries to fill their needs at a faster rate through the hiring of Veterans and their Spouses. Therefore, attracting more military families to Vermont who can quickly enter the workforce through licensed industries should be a priority.

Conclusion

Attracting Veterans to Vermont would prove beneficial to the state as it would help address primary issues facing the state currently. Focusing on bringing Veteran families into the state would satisfy Vermont's need to bring younger families into an aging state, as well as the need to boost the workforce. Military spouses present a demographic of well-educated, young, and qualified individuals who face barriers to employment during their spouse's active service but often seek employment once these barriers are lifted. The Veteran demographic is additionally getting younger, leading to many military retirees entering the civilian workforce after retirement. For Veterans to move to Vermont, however, it must appear as a suitable option on their end too. With Vermont being 1 of 3 states to still fully tax military retirement income, it may not appear as the best option for military retirees looking to settle. Therefore, when

evaluating the effects of repealing the tax, external factors should be accounted in order to evaluate the true scope of impact that would result.

¹ Bureau of Labor Statistics, “Vermont: Economy at a Glance,” U.S. Department of Labor (2022), <https://www.bls.gov/eag/eag.vt.htm>

² United States Census Bureau, “U.S. Census Bureau QuickFacts: Vermont,” United States Census Bureau (2021), <https://www.census.gov/quickfacts/VT>

³ U.S. Department of Veterans Affairs, “The Military to Civilian Transition 2018: A Review of Historical, Current, and Future Trends” (2018). U.S Department of Veterans Affairs (2018), <https://benefits.va.gov/TRANSITION/docs/mct-report-2018.pdf>

⁴ Ibid.

⁵ Ibid.

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

⁹ Office of the Deputy Assistant Secretary of Defense for Military Community and Family Policy, “2020 Demographics Profile of the Military Community,” U.S Department of Defense (2021), <https://download.militaryonesource.mil/12038/MOS/Reports/2020-demographics-report.pdf>

¹⁰ Ibid.

¹¹ Ibid.

¹² National Military Spouse Network, “Roadmap to Employment Stability for Military Spouses,” NMSN (2021), https://www.nationalmilitaryspousenetwork.org/public/images/2021_White_Paper_NMSN.pdf

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ U.S. Chamber of Commerce Foundation, “Military Spouses in the Workplace: Understanding the Impacts of Spouse Unemployment on Military Recruitment, Retention, and Readiness,” U.S. Chamber of Commerce Foundation (2017), <https://www.uschamberfoundation.org/sites/default/files/Military%20Spouses%20in%20the%20Workplace.pdf>

¹⁷ National Military Spouse Network, “Roadmap to Employment Stability for Military Spouses,” NMSN (2021), https://www.nationalmilitaryspousenetwork.org/public/images/2021_White_Paper_NMSN.pdf

¹⁸ Military Benefits, “Military Job Assistance Programs for Transitioning Servicemembers,” Militarybenefits.info (2022), <https://militarybenefits.info/military-job-assistance-programs-for-transitioning-servicemembers/>

¹⁹ Vermont State Legislature, “An Act Relating to the Professional Regulation for Veterans, Military Service Members, and Military Spouses,” ACT 177 (H.681), signed into law June 9, 2014, <https://legislature.vermont.gov/Documents/2014/Docs/ACTS/ACT177/ACT177%20As%20Enacted.pdf>

²⁰ Ibid.

²¹ Ibid.

²² Ibid.