

H.255 House Ways & Means Testimony

Madam Chair and Committee –

Thank you for the opportunity to introduce to you today H.255, a bill seeking to exempt military pensions and survivors benefits from Vermont State income tax.

Vermont has just under 42,000 military residents, but as of 2021, only 3,927 of whom are retirees (50.3% of those are retired National Guard or Reserves); over the past five years, that number has remained static, despite 80 new National Guardsmen who retiree each year. There are also 741 survivors (spouses and dependents) who resided in Vermont as of 2021. Currently, retired military members and survivors pay Vermont State income tax on all of their pension or survivors benefits except the first \$10,000 of pension income, they cannot earn above \$50,000 individually or \$65,000 jointly, and at retirement age, they must choose to take a tax exemption on either their military benefits or their social security benefits; they cannot be exempt from both, even though the average age for military retirees is 38-42 years old, and they likely have a long civilian career ahead. (Please note that National Guard and Reserves members cannot collect retirement until age 60, so they need to remain employed for those 20+ additional years). During this second career, they will contribute to social security and pay state income tax, sales tax, local options tax, rooms and meals tax, and property tax in Vermont. Retirees also come to Vermont trained with specific skill sets that complement our workforce needs and can make immediate contributions to employers. These families settle in our communities, providing critical workforce in highly skilled positions, civic engagement in our municipalities, attendance in our schools, and they often are accompanied by spouses and significant others who contribute in all the same ways to the workforce and economies of our State. These individuals have a proven work ethic, are committed leaders in their communities, and may be eligible for federal benefits such as healthcare coverage at no burden to the State of Vermont.

In FY'20, the military brought in \$257M, including Department of Defense and Veterans Administration compensation, survivors benefits, compensation and pensions, vocational rehabilitation, and educational benefit payments, inclusive of \$85M in retiree pay.

Contrary to what was passed in Vermont last session, three states moved to increase the amount of their allowed exemption to 100% with no requirement to choose between a military pension exemption and a social security income exemption: OK, RI, and SC; bringing the total to 47 states that offer more than Vermont does for military retirees. I'm sure many of you know of a retired military household that has moved to another state, or that is thinking about doing so.

Additionally, my research shows that there are several new partial exemptions that went into effect in 2022: DE, GA, NM, and VA. All but Delaware have varying degrees of graduated tax policy to allow time to determine alternate forms of funding to replace lost tax revenue. These four states, along with 43 other states, all have more generous exemptions than Vermont's \$10,000 exemption, and none have income caps or the requirement to choose between exemptions at retirement age. Vermont is ranked squarely at number one in terms of the worst states for military retirees to live in, according to the latest rankings by WalletHub.

Thank you for taking the time today to hear about this important bill to honor military retirees and their families for their service and to grow our Vermont workforce.