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H.43

Introduced by Representatives Canfield of Fair Haven, Hango of Berkshire,  
Morgan, M. of Milton, Morrissey of Bennington, Austin of  
Colchester, Bailey of Hyde Park, Bartley of Fairfax, Birong of  
Vergennes, Bosch of Clarendon, Boutin of Barre City, Boyden  
of Cambridge, Branagan of Georgia, Burditt of West Rutland,  
Burt of Cabot, Casey of Montpelier, Christie of Hartford, Cina  
of Burlington, Coffin of Cavendish, Corcoran of Bennington,  
Demar of Enosburgh, Dickinson of St. Albans Town,  
Dobrovich of Williamstown, Dolgin of St. Johnsbury, Donahue  
of Northfield, Galfetti of Barre Town, Goslant of Northfield,  
Greer of Bennington, Gregoire of Fairfield, Harrison of  
Chittenden, Harvey of Castleton, Higley of Lowell, Hooper of  
Randolph, Hooper of Burlington, Howard of Rutland City,  
Howland of Rutland Town, Hunter of Manchester, Kascenska  
of Burke, Keyser of Rutland City, Krasnow of South  
Burlington, Labor of Morgan, Laroche of Franklin, Lipsky of  
Stowe, Luneau of St. Albans City, Maguire of Rutland City,  
Malay of Pittsford, Marcotte of Coventry, McFaun of Barre  
Town, Micklus of Milton, Minier of South Burlington, Morgan,  
L. of Milton, Morris of Springfield, Nelson of Derby, Nielsen of

1                    Brandon, North of Ferrisburgh, Noyes of Wolcott, Ode of  
2                    Burlington, Oliver of Sheldon, Page of Newport City, Parsons  
3                    of Newbury, Pinsonault of Dorset, Powers of Waterford,  
4                    Priestley of Bradford, Pritchard of Pawlet, Quimby of Lyndon,  
5                    Sibia of Dover, Southworth of Walden, Stone of Burlington,  
6                    Sweeney of Shelburne, Tagliavia of Corinth, Taylor of Milton,  
7                    Toof of St. Albans Town, Walker of Swanton, Wells of  
8                    Brownington, White of Waitsfield, and Winter of Ludlow

9                    Referred to Committee on

10                   Date:

11                   Subject: Taxation; income tax; military retirement; survivor benefit income;  
12                   exemption

13                   Statement of purpose of bill as introduced: This bill proposes to exempt  
14                   military retirement and survivor benefit income from Vermont income tax.

15                   An act relating to exempting military retirement and survivor benefit  
16                   income from Vermont income tax

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

18                   Sec. 1. 32 V.S.A. § 5811 is amended to read:

19                   § 5811. DEFINITIONS

20                   As used in this chapter unless the context requires otherwise:

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(21) “Taxable income” means, in the case of an individual, federal adjusted gross income determined without regard to 26 U.S.C. § 168(k) and:

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

- (i) income from U.S. government obligations;
- (ii) with respect to adjusted net capital gain income as defined in 26 U.S.C. § 1(h) reduced by the total amount of any qualified dividend income: either the first \$5,000.00 of such adjusted net capital gain income or 40 percent of adjusted net capital gain income from the sale of assets held by the taxpayer for more than three years, except not adjusted net capital gain income from:

(I) the sale of any real estate or portion of real estate used by the taxpayer as a primary or nonprimary residence; or

(II) the sale of depreciable personal property other than farm property and standing timber; or stocks or bonds publicly traded or traded on an exchange, or any other financial instruments; regardless of whether sold by an individual or business; and provided that the total amount of decrease under this subdivision (21)(B)(ii) shall not exceed 40 percent of federal taxable income or \$350,000.00, whichever is less;

1           (iii) recapture of State and local income tax deductions not taken  
2 against Vermont income tax;

3           (iv) the portion of certain retirement income and federally taxable  
4 benefits received under the federal Social Security Act that is required to be  
5 excluded under section 5830e of this chapter;

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

10           (vi) the amount of interest paid by a qualified resident taxpayer  
11 during the taxable year on a qualified education loan for the costs of attendance  
12 at an eligible educational institution; and

13           (vii) U.S. military retirement income and U.S. military survivor  
14 benefit income received by the surviving spouse or dependent of the deceased  
15 service member; and

16                                   \* \* \*

17           Sec. 2. 32 V.S.A. § 5830e is amended to read:

18           § 5830e. RETIREMENT INCOME; SOCIAL SECURITY INCOME

19                                   \* \* \*

20           (c) Other contributory retirement systems; earnings not covered by Social  
21 Security. Other retirement income, ~~except U.S. military retirement income~~

1 ~~pursuant to subsection (d) of this section,~~ received by a taxpayer of this State  
2 shall be excluded pursuant to subsection (b) of this section as though the  
3 income were received from the Civil Service Retirement System and shall be  
4 subject to the limitations under subsection (e) of this section, provided that:

5 (1) the income is received from a contributory annuity, pension,  
6 endowment, or retirement system of:

7 (A) the U.S. government or a political subdivision or instrumentality  
8 of the U.S. government;

9 (B) this State or a political subdivision or instrumentality of this  
10 State; or

11 (C) another state or a political subdivision or instrumentality of  
12 another state; and

13 (2) the contributory system from which the income is received was  
14 based on earnings that were not covered by the Social Security Act.

15 ~~(d) U.S. military retirement income. U.S. military retirement income~~  
16 ~~received by a taxpayer of this State shall be excluded pursuant to subsection~~  
17 ~~(b) of this section as though the income were received from the Civil Service~~  
18 ~~Retirement System and shall be subject to the limitations under subsection (e)~~  
19 ~~of this section. [Repealed.]~~

20 (e) Requirement to elect one exclusion. A taxpayer of this State who is  
21 eligible during the taxable year for the Social Security income exclusion under

1 subsection (a) of this section and ~~any~~ one or both of the exclusions under  
2 subsections (b)—~~(d)~~ and (c) of this section shall elect either one of the  
3 exclusions for which the taxpayer is eligible under subsections (b)—~~(d)~~ and (c)  
4 of this section or the Social Security income exclusion under subsection (a) of  
5 this section, but not both, for the taxable year. A taxpayer of this State who is  
6 eligible during the taxable year for ~~more than one of the~~ both exclusions under  
7 subsections (b)—~~(d)~~ and (c) of this section shall elect only one of the  
8 exclusions for which the taxpayer is eligible for the taxable year.

9 Sec. 3. EFFECTIVE DATES

10 (a) This section shall take effect on passage.

11 (b) Notwithstanding 1 V.S.A. § 214, Secs. 1 and 2 shall take effect  
12 retroactively on January 1, 2026 and apply to taxable years on and after  
13 January 1, 2026.