

1 S.17

2 Introduced by Senators Collamore, Beck, Brennan, Brock, Chittenden,
3 Douglass, Harrison, Hart, Hashim, Heffernan, Ingalls, Lyons,
4 Major, Mattos, Norris, Plunkett, Ram Hinsdale, Weeks,
5 Westman, White and Williams

6 Referred to Committee on

7 Date:

8 Subject: Taxation; income tax; military retirement; survivor benefit income;
9 exemption

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

12 An act relating to exempting military retirement and survivor benefit
13 income from Vermont income tax

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

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

16 § 5811. DEFINITIONS

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

18 * * *

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

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(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;

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

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

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

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

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

14 * * *

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

16 § 5830e. RETIREMENT INCOME; SOCIAL SECURITY INCOME

17 * * *

18 (c) Other contributory retirement systems; earnings not covered by Social
19 Security. Other retirement income, ~~except U.S. military retirement income~~
20 ~~pursuant to subsection (d) of this section,~~ received by a taxpayer of this State
21 shall be excluded pursuant to subsection (b) of this section as though the

1 income were received from the Civil Service Retirement System and shall be
2 subject to the limitations under subsection (e) of this section, provided that:

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

5 (A) the U.S. government or a political subdivision or instrumentality
6 of the U.S. government;

7 (B) this State or a political subdivision or instrumentality of this
8 State; or

9 (C) another state or a political subdivision or instrumentality of
10 another state; and

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

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

18 (e) Requirement to elect one exclusion. A taxpayer of this State who is
19 eligible during the taxable year for the Social Security income exclusion under
20 subsection (a) of this section and ~~any~~ one or both of the exclusions under
21 subsections (b)–~~(d)~~ and (c) of this section shall elect either one of the

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

7 Sec. 3. EFFECTIVE DATES

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

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