



STATE OF VERMONT
JOINT FISCAL OFFICE

MEMORANDUM

To: House Committee on Ways and Means
From: Patrick Titterton, Senior Fiscal Analyst, Joint Fiscal Office
Date: January 31, 2025
Subject: H.43 An act relating to exempting military retirement and survivor benefit income from Vermont income tax

H.43 would exempt military retirement and survivor benefit income from Vermont income tax. The Joint Fiscal Office (JFO) estimates that a full exemption of military retirement benefits would reduce personal income tax revenue to the General Fund by \$3.9 million.

Under current law, Vermont tax filers who receive military retirement benefits may exempt up to \$10,000 of that benefit from their taxable income. To be eligible, filers must have an adjusted gross income (AGI) of \$50,000 or below if they are single, or \$65,000 or below if they are married filing jointly. The exemption is then phased out over the next \$10,000 of income for both filing statuses. If eligible filers also collect Social Security income, they must elect to claim either the exemption for military retirement benefits or the one for Social Security income, not both.

It is important to distinguish between military retirees and veterans. The terms are often used interchangeably but refer to different groups of people:

- A *veteran* refers to any person who has served any length of time in any military service branch. They may have served in combat or been medically discharged. Generally, this is any individual who has completed basic training.
- A *military retiree* is a veteran who has spent at least 20 years in uniformed service and has since left the military.

Military retirees are always veterans, but veterans are not always military retirees. Only military retirees are eligible to receive military retirement benefits, so exempting that income from taxation only affects that group's tax liability.

The most recent available data shows that there are approximately 34,076¹ veterans and 3,900² military retirees in Vermont.

¹ As of 2023. 2023 5-year American Community Survey table S2101.

² As of 2022.

Military Retirees are paid a pension by the U.S. Department of Defense (DoD). In 2022, there were 3,921 military retirees in Vermont, and 3,593 were receiving a military pension. In total, these retirees received approximately \$90.8 million in benefits payments, or an average of \$25,269 per recipient. This amount is approximately 19.5 percent lower than the United States average annual military retiree benefits payment of \$31,374.

	Total	Paid by DoD	Annual Payment	Average
Vermont	3,921	3,593	\$90,792,000	\$25,269
United States	2,190,448	1,998,452	\$62,698,680,000	\$31,374

Source: United States Department of Defense, Office of the Actuary, 2023.

Military retirees' pensions depend on their rank upon retirement, retiring as either officers or enlisted services members. About a quarter of Vermont's military retirees retired at the officer level, which tracks closely to the national average.

Officers				
	Total	Paid by DoD	Annual Payment	Average
Vermont	953	944	\$40,488,000	\$42,890
Percent of Total Military Retirees	24.3%	26.3%		
United States	554,924	548,624	\$27,808,500,000	\$50,688
Percent of Total Military Retirees	25.3%	27.5%		
Enlisted				
	Total	Paid by DoD	Annual Payment	Average
Vermont	2,968	2,649	\$50,292,000	\$18,985
Percent of Total Military Retirees	75.7%	73.7%		
United States	1,635,524	1,449,828	\$34,789,428,000	\$23,996
Percent of Total Military Retirees	74.7%	72.5%		

Survivors' benefits allow a retiree to ensure, after death, a continuous lifetime annuity for their dependents. Retirees pay premiums for survivor benefits plans upon retiring, which are paid from gross retired pay so they do not count as taxable income. As of 2022, there were 751 Vermonters receiving survivors' benefits. Total annual benefits payments equaled approximately \$8.9 million or \$11,808 on average per recipient.

The Joint Fiscal Office estimates that a full exemption of military retirement benefits would reduce personal income tax revenue by \$3.9 million. This amount is expected to grow modestly over time as the number of military retirees in the State has historically grown very slowly, and benefits payments are adjusted for inflation annually.