

Vermont Legislative Joint Fiscal Office

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REVISED FISCAL NOTE

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H.185: An act relating to exempting U.S. military retirement pay and survivor benefit income – As Introduced

Summary:

This bill proposes to exempt a portion of military retirees' pension benefits from Vermont's personal income tax. For all retirees with pensions below \$35,000, \$25,000 worth of benefits would be fully exempt from income tax. For those with benefits between \$25,000 and \$35,000, in addition to the \$25,000 exemption, a phased-out portion of the pension between \$25,000 and \$35,000 would be exempt.

Fiscal Impact:

JFO estimates that this bill would reduce General Fund revenues by \$1.7 million in Fiscal Year 2022 and that reduction would increase slowly thereafter.

This analysis relies upon the officer and enlisted population distribution for Vermont in 2019. The bill fully exempts \$25,000 worth of pension benefits for those with pensions below \$35,000. This would fully exempt the pensions of most of Vermont's 2,997 *enlisted* military retirees, who have an average pension benefit of \$15,769. In addition to this, JFO estimates that of Vermont's 948 retired officers, 449 would receive the \$25,000 because their pensions are below \$35,000.

The second part of this exemption, on top of the \$25,000 for those with pensions below \$35,000, is a phased-out exemption for those with pensions between \$25,000 and \$35,000. There are an estimated 421 retirees with pension incomes that fall between this range (241 enlisted and 180 officer retirees), and their average pension is just over \$30,000, making them about halfway through the phase-out range. These retirees would receive the \$25,000 exemption, plus non-phased out portion between \$25,000 and \$35,000.

JFO also assumed that officers have a higher overall effective tax rate than enlisted retirees due the fact that their income is higher.

The sum of these two parts results in a revenue loss of \$1.76 million in FY 2022.

Source: Department of Defense, Office of the Actuary, FY2019 Statistical Report On The Military Retirement System:

https://actuary.defense.gov/Portals/15/Documents/MRS_StatRpt_2019_Final.pdf?ver=Qi3S6ORp0xHR8cLUYe2z-w%3d%3d