

To: Senate Finance & Taxation Committee

From Bruce Gjovig, USAF & Space Force Civic Leader, Grand Forks  
[Bruce@Gjovig.net](mailto:Bruce@Gjovig.net) C: 701-739-3132

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### For SB 2293 Income Tax Deduction for Military Pay

Many states recognize military service by choosing to provide favorable tax treatment for **military pay** and **military retirement pay**. North Dakota is among 26 states that exempts military retirement pay from state income tax, with 22 states partially exempting retirement pay, and only 2 states fully taxing military retirement pay. States exempt military retirement pay from taxes as recognition of military service to our country and an incentive to retire in-state after 20+ years of service as retired military are a highly desirable workforce. Retirees are known to locate where their military retirement pay is not taxed.

Military pay is considered to be taxable income at the federal level. North Dakota also currently taxes military pay. Eight (8) states have no state income tax (incl. SD), one state only taxes interest & dividend income, and an additional 12 states fully exempt military income from state tax including Minnesota. An additional 14 states partially exempt military income from state income tax under certain conditions. *That is a total of 35 states that have no or partial state income tax on military pay.* (<https://www.myairforcebenefits.us.af.mil/News/Which-states-tax-my-Active-Duty-or-Reserve-military-pay>).

A service member is allowed to keep a **state of residence** for income tax, including have an option of establishing residency in a new state where they are stationed, and keep that residency as they are stationed in other states or overseas. Most military members establish residency in states without income taxes to exclude military pay. They pay state income taxes on other income and their spouse would pay state income tax in that state of residency even if they used no services from that state. *We want military members to choose North Dakota for home of residence.*

Military personnel often do not have a say in where they are stationed during their military career. Upon retirement, they have an opportunity to choose a community and state that is best for the rest of their career and in retirement. They often chose a place where they loved to live and were treated well along with job opportunities, lower cost of living and high quality of life. No income tax on their military or retirement pay also plays an important role in that decision.

The Department of Defense reports there are about 2.2 million military retirees in the United States, each receiving an average monthly pay of \$2,361 (Sept 2022, The 10 Best States for Military Retirees). Unlike most civilian retirement plans, military pensions begin the day they retire, no matter the age.

North Dakota has the lowest income tax of any state having an income tax. It may go lower if income tax is lowered to 1.5% flat tax. It may not seem like not much of an incentive to waive the lowest income tax in the nation, but it remains an important gesture of recognition for service to our country, and an invite to make North Dakota your state of residence and to live and retire here. That is what we want.