

**FISCAL NOTE**  
**Requested by Legislative Council**  
**01/10/2017**

Bill/Resolution No.: HB 1225

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2015-2017 Biennium		2017-2019 Biennium		2019-2021 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
<b>Revenues</b>			\$(4,600,000)			
<b>Expenditures</b>						
<b>Appropriations</b>						

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2015-2017 Biennium	2017-2019 Biennium	2019-2021 Biennium
<b>Counties</b>			
<b>Cities</b>			
<b>School Districts</b>			
<b>Townships</b>			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1225 creates a new income tax deduction for individuals, including their survivors, who receive military retirement pay for service in the U.S. armed forces, National Guard, or their reserve components.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 of the bill will exclude from income tax 100% of an individual's military retirement pay for service in the U.S. armed forces, National Guard, or their reserve components.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

If enacted, HB 1225 is expected to reduce state general fund revenues by an estimated \$4.6 million for the 2017-19 biennium. Of this amount, approximately \$200,000 is attributable to payments to survivors of retired military members.

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

**Name:** Kathryn L. Strombeck

**Agency:** Office of Tax Commissioner

**Telephone:** 701.328.3402

**Date Prepared:** 01/13/2017

**2017 HOUSE FINANCE AND TAXATION**

**HB 1225**

# 2017 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee  
Fort Totten Room, State Capitol

HB 1225  
1/16/2017  
26899

- Subcommittee  
 Conference Committee

Committee Clerk Signature

*Mary Brucker*

## Explanation or reason for introduction of bill/resolution:

A bill relating to an income tax deduction for retired military personnel benefits.

## Minutes:

Attachment 1, 2

**Chairman Headland:** Opened hearing on HB 1225.

**Representative Steve Vetter:** Introduced bill. Distributed written testimony. See attachment #1. (Ended testimony at 5:22)

**Chairman Headland:** We like to help our veterans. Is it possible that a veteran who chooses the military as his career that possibly never served in a war, is going to be the big beneficiary of this bill and the \$4.5 million worth of general fund revenue that would be lost because of it? Being a veteran is honorable but so is a school teacher as well as so many other careers.

**Representative Vetter:** I would say the difference between a school teacher versus a veteran is that in a lot of cases they offer their own life whereas teachers don't go into a war zone and are not subject to the same type of things that a veteran does.

**Chairman Headland:** It's been pointed out that a lot of military personnel haven't ever been in a war zone either. You referenced the fact that if we allowed this we might attract more veterans here. If we had no income tax would we attract a lot more people from all over? If we pass a bill like this, it makes it harder for us to do the latter.

**Representative Vetter:** Minnesota doesn't have exemptions either and I believe that there are a lot of Minnesota residents who would rather be in North Dakota.

**Representative Trottier:** In 2013 we had a similar bill. At that time, I left the hearing feeling 100% in support of this bill. I later made some phone calls to retired veterans and they didn't believe it was necessary. They want to pay their own taxes. The Department of Veterans Affairs has given me my healthcare and my retirement and now I'm back in the work force. I feel like I should pay my fair share.

**Representative Vetter:** That may be with those individuals. Our state doesn't have any form of exemption when other states offer their veterans some form of exemption. There are others who feel differently and who really need this exemption.

**Representative Trotter:** I'll bet that our state income tax rate is much lower than the other states that are doing this. Would you agree?

**Representative Vetter:** That's kind of a general statement.

**Chairman Headland:** North Dakota has the lowest individual income tax rates in the nation of any state that levies an income tax.

**Representative Howe:** With Minnesota not having any exemption, North Dakota is competing with their workforce. Would it be safe to say that it isn't necessary for North Dakota to have an exemption because we're not trying to compete with Minnesota?

**Representative Vetter:** We aren't competing against them right now but it will create more incentive. South Dakota has no state income tax so you could also look at that standpoint.

**Representative Hogan:** The average annual household income in North Dakota right now is \$53,000. Why did you set the \$100,000 option?

**Representative Vetter:** That was an arbitrary number; there was not a lot of research that went into that number.

**Representative Hogan:** Did you think of the possibility of setting your own tiered system?

**Representative Vetter:** I would be open to a tiered system.

**Chairman Headland:** Is there further testimony in support?

**Representative Beadle:** Distributed written testimony in support. See attachment #2. (Ended testimony 19:25)

**Chairman Headland:** If we're trying to incentivize people to come here doesn't a bill like this make it more challenging if we're looking at a broad range of different occupations? I agree with you that military personnel are generally very sharp and high tech so there is certainly a place for them. This bill actually makes it harder for us to reduce the overall income tax for everyone.

**Representative Beadle:** I would disagree with you entirely. Rather than this bill making it harder to reduce the tax for anyone, I would say this bill is a step in the right direction to eliminating that tax for everyone. This bill makes it easier because we open up the door.

**Chairman Headland:** I'd like to see where the \$4.6 million is coming from.

**Representative Beadle:** The \$4.6 million will come from when you lower the tax rate and start incentivizing more people to get out there, spend money, and grow our workforce then

we'll make that up from other tax revenue sources. Sales tax is the number one driver of revenue for us; personnel income tax is a very small pile compared to our revenue.

**Representative Ertelt:** Do you know the average years one must be in the military to qualify for retirement benefits?

**Representative Beadle:** I don't know that for sure but I heard someone in the audience say that it is 20 years.

**Representative Ertelt:** The period for which the benefit that this bill would give them is a rather short period of time then?

**Representative Beadle:** Yes. The average person entering the military is prior to 24 years of age. Therefore, you are retiring in your 40s. It is rather a short period of time compared to other professions but it is still a substantial chunk of time.

**Representative Ertelt:** Do you know what the average benefit it to retired military?

**Representative Beadle:** I do not know. I'm sure that information could be found though.

**Chairman Headland:** Is there further testimony in support? Is there any opposition to HB 1225? Does anyone have any questions for the tax department?

**Joe Becker, Tax Department:** The prior question regarding the average benefit is in North Dakota the average monthly payment is \$1,730 so if you multiply that by 12 you get shy of \$21,000 per year.

**Chairman Headland:** Closed the hearing on HB 1225. Committee discussion. We've had this bill for at least the last two sessions and they've received a do not pass each time. I think the same reasons stand. It is interesting that we had veterans in the audience but they chose not to testify in support which hasn't been the case in the past. It makes it tougher for us to provide broad tax relief to everybody when we carve out different groups. I'm going to support a do not pass on this bill.

**Representative Hogan:** I was surprised at how many contacts I've had over the last six months asking why we don't exempt social security income because that is a broader based target of primarily seniors. Targeting lower and middle income families would be a better alternative if we were going to carve one group out.

**Representative Olson:** My thought is also not to pass it. I've spoken with veterans in my district and they think it is a goodwill gesture. They don't really want a handout but they want to feel wanted. There are quite a few veteran assistance programs already in the state. I don't think this is an economic development incentive either given that we already have a low tax rate.

**Representative B. Koppelman:** I was co-sponsor of the bill. I was thinking of the disabled veterans at the time. In hearing testimony, I disagree with most of what I heard. At this point

I'm not as in favor of it as I was if it was more geared toward disabled veterans and veterans at the time of retirement, age 65 or over.

**Representative Trottier:** Disabled veterans' benefits are not federally or state taxed.

**Chairman Headland:** I'd like to deal with this bill.

**Representative Trottier:** MADE A MOTION FOR A DO NOT PASS.

**Representative Howe:** SECONDED.

**Chairman Headland:** Is there further discussion?

**ROLL CALL VOTE:** 12 YES 1 NO 1 ABSENT  
**MOTION CARRIED**

**Representative B. Koppelman will carry this bill.**

Date: 1-16-17  
 Roll Call Vote #: 1

**2017 HOUSE STANDING COMMITTEE  
 ROLL CALL VOTES  
 BILL/RESOLUTION NO. 1225**

House Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: \_\_\_\_\_

Recommendation:  Adopt Amendment  
 Do Pass  Do Not Pass  Without Committee Recommendation  
 As Amended  Rerefer to Appropriations  
 Place on Consent Calendar  
 Other Actions:  Reconsider  \_\_\_\_\_

Motion Made By Rep. Trottier Seconded By Rep. Howe

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland	✓		Representative Hogan	✓	✓
Vice Chairman Dockter	✓		Representative Mitskog		✓
Representative Ertelt	✓				
Representative Grueneich	✓				
Representative Hatlestad	✓				
Representative Howe	✓				
Representative Koppelman	✓				
Representative Olson	✓				
Representative Schobinger	AB				
Representative Steiner	✓				
Representative Toman	✓				
Representative Trottier	✓				

Total (Yes) 12 No 1

Absent 1

Floor Assignment Rep. B. Koppelman

If the vote is on an amendment, briefly indicate intent:



**REPORT OF STANDING COMMITTEE**

**HB 1225: Finance and Taxation Committee (Rep. Headland, Chairman)** recommends **DO NOT PASS** (12 YEAS, 1 NAYS, 1 ABSENT AND NOT VOTING). HB 1225 was placed on the Eleventh order on the calendar.

2017 TESTIMONY

HB 1225

#1 p.1  
1-16-17  
HB 1164

Chairman Headland and members of the Tax and Finance Committee:

My name is Representative Steve Vetter representing District 18, I come before you today with HB Bill #1225. It exempts military retirement benefits from ND State Income Tax. We are one of 5 states that don't have any exemption for retirement benefits. \_\_\_\_\_

"We sleep safely at night because rough men stand ready to visit violence on those who would harm us."

— **Winston S. Churchill**

We have two military bases in our state. We have around 1/3 of the State's population on the border with Minnesota (who is also one of the 5 states without exemption giving us an advantage over this neighboring state to attracting veterans. This bill would give incentive for these retiring veterans to want to stay, live and work in our great State in the private sector.) I believe this is a good policy because veterans make great employees and employers that are needed to fill our expanding economy. This would also be true when attracting experienced veterans for jobs in the expanding North Dakota UAS industry to which we are currently are #1 in the world.

(Unmanned Aircraft Systems)

The fiscal note has a cost of 4.6 million. However, this policy would encourage more veterans to stay with their families in North Dakota. This adds to income tax and sales tax collected by the state. So, this would lower the long term actual cost of this fiscal note.

**What is the cost to have qualified job seekers to fill the much-needed workforce our state needs?**

"The soldier is the Army. No army is better than its soldiers. The Soldier is also a citizen. In fact, the highest obligation and privilege of citizenship is that of bearing arms for one's country"

— **George S. Patton Jr.**

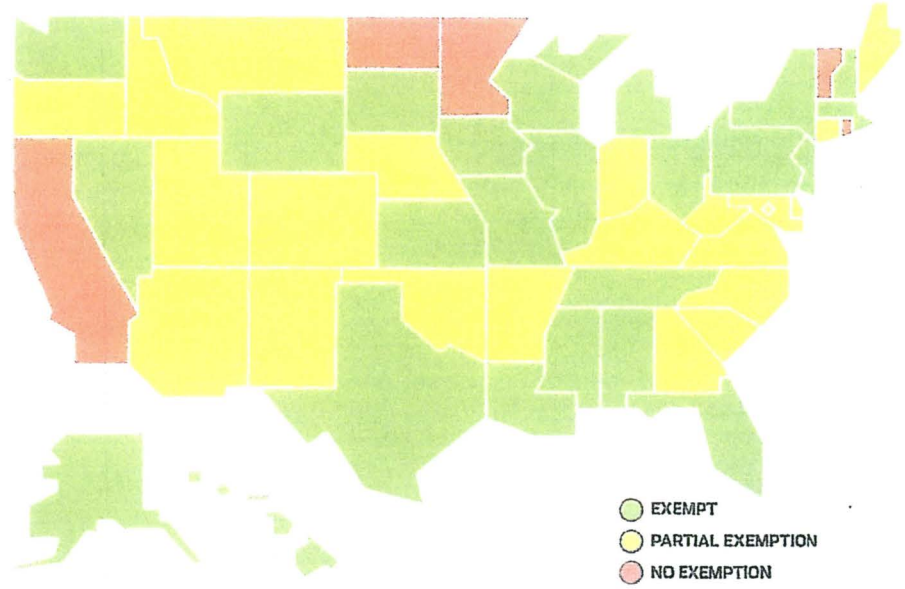
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48 1225

In summary, I believe the cost is comparatively low to the benefit our state will receive by attracting more retiring military to live and work in our great State.

When you weigh the cost versus the benefit, the benefit for our State outweighs the cost of 4.6 million that just considers current taxes being taken out of military retirement benefits and doesn't factor to the additional state income, sales, and property taxes they will receive from these veterans living and working in the state. It also doesn't consider the cost to fill the much-needed job positions these veterans can fill.

**MOAA**  
State-by-State  
Assessment

# Taxation of Military Retired Pay



**Military Retirement Pay Exempt From State Taxes:** Some states allow military retirees to exempt a specific amount, a percentage, or full military retired pay from state income taxation. Note that Tennessee and New Hampshire tax only dividend and interest income, while Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming have no state income tax.

Veterans also might receive exemptions for disability pay, and spouses might be able to receive exemptions for their survivor benefits. mo

- EXEMPT
- PARTIAL EXEMPTION
- NO EXEMPTION

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1-16-17  
HB 1225

Possible amendment:

If the committee cannot back the HB 1225 'as is' then a possible amendment fix would be adding language that exempts military retirement benefits for individuals making up \$100,000.

This would eliminate the argument that wealthier, successful veterans don't need the exemption and it would significantly lower the cost of the fiscal note.

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1-16-17  
HB 1225

16 January 2017

HB 1225

House Finance and Tax Committee

Good Morning Chairman Headland and members of the committee. For the record, my name is Thomas Beadle, State Representative from district 27 in Fargo. I'm here to offer my full support for House Bill 1225, and Representative Vetter's attempt to make our state more attractive for veterans to live and work when their military service has ended.

For the benefit of the committee, I have included with my testimony a printout of the 2015 State Report Card by the Military Officer's Association of America. The 2017 report will be available next month, but you will find most of the information in this handout is still accurate today.

We all are aware that our state has a low population when compared to other states, and I am sure that the members of this committee are also aware of the fact that workforce availability is consistently the top issue facing businesses in North Dakota. I feel that House 1225 is a good carrot for our state to use, to help address some of our workforce needs by incentivizing some of the hardest working and best trained citizens in our nation to settle down here and call North Dakota home. Members of our armed forces tend to retire from their military careers at a young age compared to the rest of us, and nearly all of them pursue second careers. These citizens have a lot of benefits and options out there for them, as our nation and various states all recognize how much they have sacrificed for our country, and they know how much of a benefit that retired military personnel provide to a community.

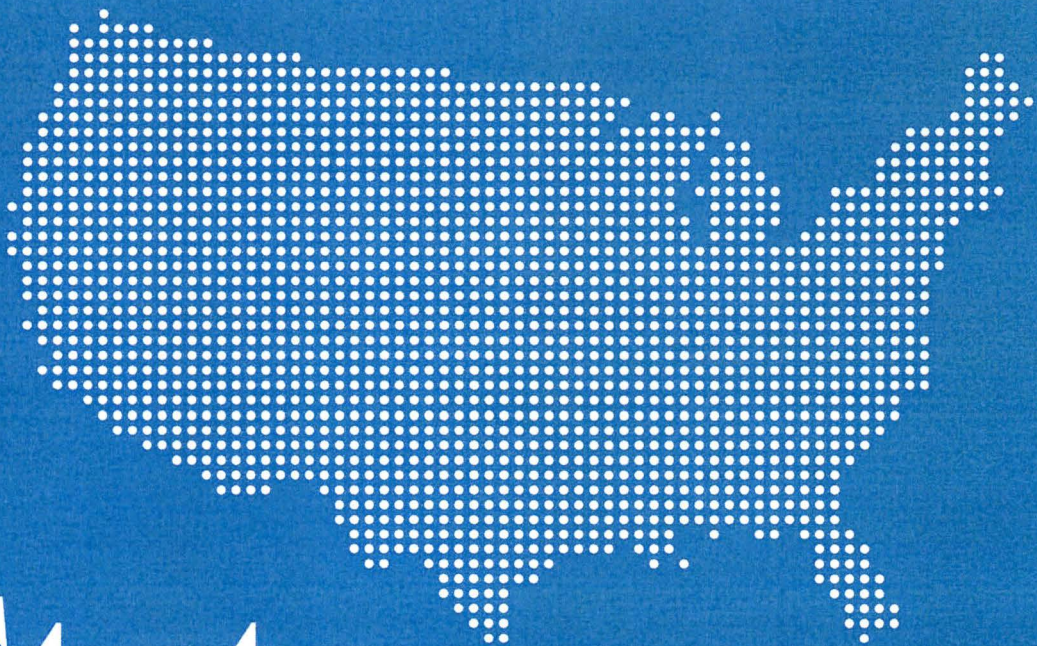
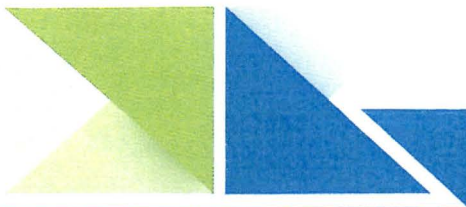
I know that the fiscal note on this bill seems onerous, but I believe that the impact on our communities and our workforce will easily offset that. This bill represents a small token of our appreciation for our veterans, and could help attract more of them into our state and our workforce. For those reasons, I ask you to give a do pass recommendation to this bill.

Thank you Mr. Chairman. I will be happy to answer any questions from the committee.

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1-16-17  
HB 1225

**MOAA**  
State-by-State  
Assessment

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# State Report Card

for military families, veterans, and retirees



**FOR THE FOURTH YEAR RUNNING,**

MOAA's annual State Report Card tracks state-level policies across the nation benefiting current, retired, and former servicemembers and their families. Gains since last year have enabled us to introduce a half-dozen new categories, as well as expand some returning ones. Turn the page to learn more.

Compiled by Capt. Paul Frost, USN (Ret); Karen Golden;  
Lt. Col. Shane Ostrom, USAF (Ret); and Lucie Rosner



# Research Tax Factors

By Vera Wilson

**WHEN YOU HEAR THE WORD "TAXES,"** you probably think about what Uncle Sam takes out of your paycheck every month. But your overall tax burden can vary widely depending on the state and municipality in which you live. It pays off to consider state and local taxes before you move.

Percentage-wise, federal income tax is likely the highest of any of the taxes working people pay. But states, counties, and cities can assess taxes on purchases, property, services, and even death. These assessments could affect whether you decide to set down roots in New York City or Fulton County, Ga.

No financial plan is complete without identifying and, whenever possible, quantifying your total tax bill.

## Name that tax

Before you get your paycheck, payroll and income taxes have been withheld at the national and state levels.

But a myriad other taxes you pay are part of the fabric of our everyday lives. For example, if you head to the mall, you're paying a gasoline tax and maybe even a vehicle license tax to get you there, plus a sales tax on that new pair of jeans you buy. Even staying at home can cost you with a tax on the utilities you use and property taxes on the roof over your head. If you think saving or investing your money will protect it from the tax man, you're forgetting about interest income, dividend income, and capital gains taxes. Retirement won't save you, either; income from pensions, annuities, and the like can be taxed. Enough to drive

you to drink? Yes, there's a tax on alcohol, too. If death and taxes are the only certain things, so is a tax on your death if your estate is large enough.

## Income taxes: the lion's share

Generally speaking, only income is taxed at the federal level, not goods and services. State income tax calculations typically use your federal taxable income as a starting point, but after that, it can get tricky. Deductions and exemptions you enjoy on your federal tax return might not apply on your state return — case in point, interest on municipal bonds.

The flip side of that is you might be able to claim a deduction on your state tax return that you can't on your federal; for example, a few states, like Illinois, exempt all or part of military income. Your state tax return will spell out all the additions and deductions you must make.

Income from investments can vary widely at the state level, as well.

For example, some states don't differentiate between ordinary income and capital gains (the latter typically is taxed at a lower federal rate), while others might tax sales of mutual funds but not individual stocks.

Seniors often receive favorable treatment regarding their state tax bills. Retirement income — military or otherwise — may be fully or partially exempt; even your capital gains may be tax-free. Local homestead exemptions may give the elderly a break on their property taxes, which is often the largest tax bill for retirees who no longer generate income from a job.

## All politics is local

Just as at the national level, a state government's agenda and its priorities can affect your tax bill dramatically. States might turn to tax increases to balance their budget, a legal requirement in all states except Vermont. For example, states with unfunded pension plans might be forced to raise taxes to cover this expense. If politicians on the campaign trail promised to reduce personal income tax rates, they might fill in the gaps by denying more specific tax breaks, perhaps those that benefit you.

City and county governments, unable to tax income, typically finance their operations through property and sales taxes, but these taxing powers often are limited by the state. Jurisdictions known for good schools and beautiful parks are great places to raise your family, but you typically pay for these benefits through higher local taxes. Decisions on the state level also can put municipalities on the defensive. For example, North Carolina recently disallowed the collection of local business privilege license fees, causing cities to scramble to fill the resulting budget hole.

A few states are rich in revenue-producing resources, allowing the government to reduce taxes collected from citizens. Wyoming, for example,

has oil and mineral rights, while Florida lets tourists help pay their bills, resulting in no state income tax.

## But it's not a tax, right?

It's hard to win over a constituency with more taxes, so local governments increasingly are using fees such as tolls, parking meters, and venue admission prices to supplement tax proceeds. If you need to pay for downtown parking every day, this might be an issue, so take a close look at how your hometown pays its bills.

## Celebrate freedom from taxation

Many taxes are the result of spending money, which makes them particularly hard to predict unless you have a real handle on your everyday expenses, so take a bird's-eye view of your spending habits. If you live in an area with a high sales tax on luxury items, will this impact you disproportionately? If you are in your car a lot, will a high gas tax hurt your wallet? Home property taxes are of

particular concern and can vary dramatically across the country. Since they're based on your home's value, which tends to increase over time, they can escalate quickly. States like Texas tout low or no income tax but often have higher property taxes.

A good source of information for forecasting your tax bill is the local government's finance department. You also can turn to the Tax Foundation ([www.taxfoundation.org](http://www.taxfoundation.org)), known for its annual comparison of state-by-state taxes. Check out its Tax Freedom Day by state chart, which tells you which day of the year you will have theoretically earned enough to pay your taxes; in 2014, Louisiana reached the day first, on March 30.

Your tax bill probably won't be the main reason you live in San Diego, Boston, or Tempe, Ariz., but do your research so you won't get surprised by a tax bill you can't handle.

— Vera Wilson is a freelance writer based in North Carolina. Her last feature article for Military Officer was "Consider the Costs," March 2015.

# Worksheet

Your estimated tax: \_\_\_\_\_

## Income taxes:

state \_\_\_\_\_

county \_\_\_\_\_

city/town \_\_\_\_\_

Capital gains \_\_\_\_\_

Inheritance/estate \_\_\_\_\_

Sales tax \_\_\_\_\_

Gasoline tax \_\_\_\_\_

## Property taxes:

state \_\_\_\_\_

county \_\_\_\_\_

city/town \_\_\_\_\_

Car \_\_\_\_\_

Utility tax \_\_\_\_\_

Alcohol tax \_\_\_\_\_

Other \_\_\_\_\_

Specific state and local taxes vary widely; this list is just a starting point.

#29.3  
1-16-17  
HB 1995





# Veteran & Retiree Benefits Criteria

**Military retirement pay/survivor benefits exempt from state taxation:** Some states allow military retirees to exempt a specific amount, a percentage, or full military retired pay from taxation.

Most states determine what income is subject to taxation based on a filer's federal tax return. Retirees who entered the military before Sept. 24, 1975, and servicemembers receiving disability retirement based on combat injuries or who could receive disability payments from the VA are covered by laws giving disability broad exemption from federal income tax. Spouses also might be able to receive exemptions for their survivor benefits.

Most military retired pay based on service-related disabilities is exempt from federal income taxation, but there is no guarantee of state tax exemption. Consult a tax expert in your state regarding your specific situation.

● A green dot on the chart on the following page indicates retired pay or survivor benefits are 100-percent exempt — with the exception of Missouri, where 90 percent of retired pay is exempt, with the exemption increasing to 100 percent in 2016.

● Yellow indicates some exemption, even if it's so limited some would argue the state should be red.  
● Red indicates no exemption.

**Estate and inheritance taxes:** Federal estate tax is not owed until an estate is valued over \$5.4 million. However, some states with estate taxes have much lower exemption amounts.

Inheritance taxes are assessed based on the value of what a beneficiary receives. The IRS explains the difference in an article at [www.irs.com/articles/inheritance-tax-vs-estate-tax](http://www.irs.com/articles/inheritance-tax-vs-estate-tax). (Note the linked article dates from 2010; in 2015, the number of states with estate taxes has increased to 15, plus the District of Columbia, while only six states tax inheritances.)  
● A green dot indicates a state does not have an estate or inheritance tax.  
● Red indicates the state does.

**Veteran treatment courts:** These programs provide services such as treatment and mentoring to veterans in the criminal justice system. According to DoD's State Liaison Office, they are "an innovative and effective means for veterans with

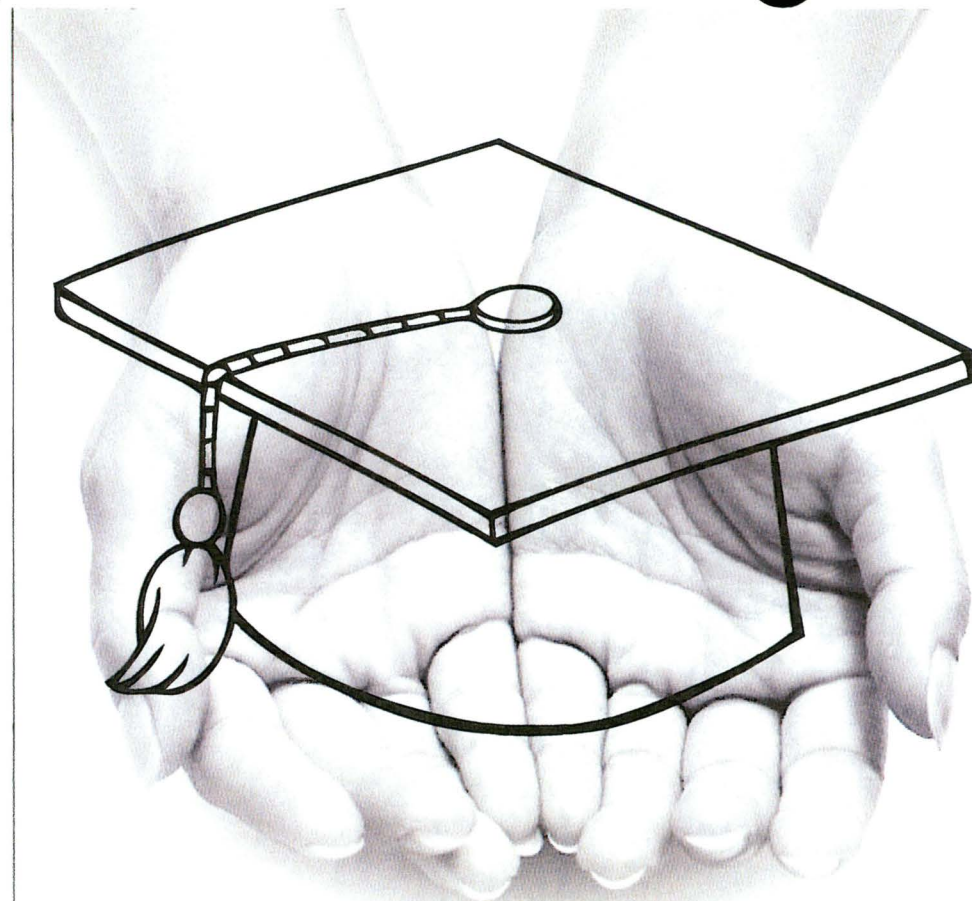
mental health and substance addiction to obtain treatment and services to resolve outstanding criminal offenses and stabilize their lives."

Learn how MOAA chapter members support veteran treatment courts in "Camaraderie With a Purpose," October 2015, and Chapters in Action, September 2014.

**Veterans preference in private hiring:** Most people are aware veterans receive preference when applying for federal employment. However, private-sector employers who wish to implement a veteran employment preference might be vulnerable to claims of discrimination.

Under Title VII, Section 11 of the Civil Rights Act of 1964, veteran employment preference may be authorized by state statute, which protects private employers from being sued under the act. However, at this point, nearly half the states lack a statute authorizing veterans preference.

● A green dot indicates a state offers veteran treatment courts or has a statute authorizing veterans employment preference; ● red indicates it does not.



## Funding Dreams

Your gifts help children from military families build successful futures.

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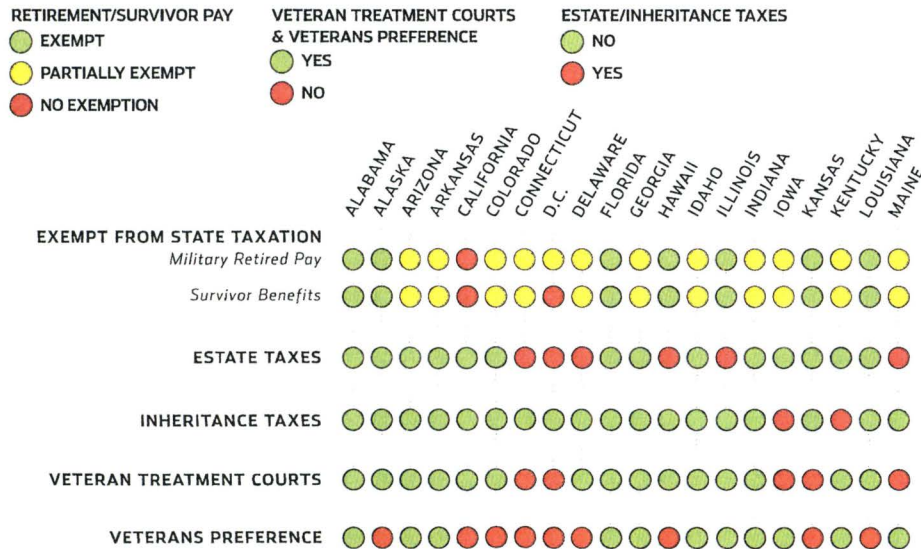
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# Veteran & Retiree Benefits

## THE STATE POLICIES PRESENTED ON THE CHART BELOW

generally benefit servicemembers who have separated or retired from the military. See "Veteran & Retiree Benefits Criteria," previous page, for an explanation of each category.



## TAX EXEMPTION NOTES

Policies vary widely from state to state. Some specific factors to be aware of are highlighted in the list below. However, it's important to weigh the benefits of each state's practices in light of your personal financial situation.

**Arizona:** Up to \$2,500 of retired pay/survivor benefits are exempt.

**Arkansas:** Up to \$6,000 of retired pay/survivor benefits are exempt.

**Colorado:** \$20,000 exemption for retirees ages 55 to 64, \$24,000 if over 65.

**Connecticut:** 50 percent of retired pay/survivor benefits are exempt.

**Delaware:** \$2,000 exemption for retirees under 60, \$12,500 if 60 or older.

**District of Columbia:** \$3,000 exemption for retirees 62 or older. No survivor benefit exemption.

**Georgia:** \$35,000 exemption for retirees ages 62 to 64, \$65,000 if 65 or older.

**Idaho:** \$30,396/\$45,594 (single/married filing jointly) exemption for retirees age 65 or older (disabled and 62 or older).

**Indiana:** \$5,000 exemption for retirees/survivors age 60 or older.

**Iowa:** \$6,000/\$12,000 exemption for retirees single/married age 55 or older.

**Kentucky:** No tax if retired before Jan. 1, 1998. \$41,110 exemption if retired after Dec. 31, 1997.

**Maine:** \$10,000 exemption for retired pay.

**Maryland:** \$5,000 exemption for retired pay.

**Missouri:** For 2015, 90 percent of military retirement is exempt. On Jan. 1, 2016, 100 percent of military retirement pay will be exempt.

**Montana:** \$3,900 maximum exemption if federal adjusted income is \$32,480 or less.

**Nebraska:** Starting in 2015, military retirees may make a one-time election within two calendar years after retirement date; choose to exclude 40 percent of military retirement benefit income for seven consecutive taxable years or 15 percent of military retirement benefit income for all taxable years beginning with the year the retiree turns 67.

**New Mexico:** State offers low- and middle-income exemption. Maximum exemption is \$2,500. To qualify, adjusted gross income must be \$36,667 or less (single filers), \$27,500 or less (married filing separately), or \$55,000 or less (married filing jointly or head of household).

**North Carolina:** Retired pay and survivor benefits exempt if retiree had five or more years of creditable service as of Aug. 12, 1989; others may take \$15,000 for married filing jointly, \$12,000 head of household, or \$7,500 for single or married filing separately.

**Oklahoma:** Military retirees may exclude the greater of 75 percent of their retirement benefits or \$10,000 (but not to exceed the amount included in their federal adjusted gross income).

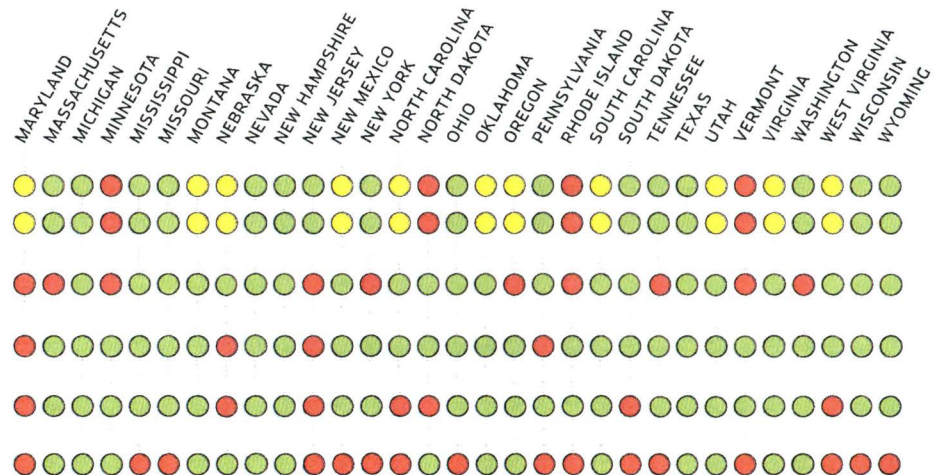
**Oregon:** If all military service occurred before Oct. 1, 1991, retirement pay is 100-percent exempt. If all service occurred after Oct. 1, 1991, then none is exempt. If service occurred both before and after Oct. 1, 1991, retirees must compute the percentage of exempt retired pay, which will remain the same from year to year. Divide months of service or points earned before Oct. 1, 1991, by total months of service and round the percentage to three places (for example, 0.4576 would be 45.8 percent).

**South Carolina:** Below age 65, up to \$3,000 is exempt. If 65 or older, up to \$10,000 is exempt.

**Utah:** Below age 65, 6 percent of retired pay may be taken as a tax credit (or \$288, whichever is less). If 65 or older, may claim \$450/\$900 tax credit (single/married), subject to income-eligibility limits (\$16,000 for married filing separately, \$25,000 for singles, or \$32,000 for married filing jointly).

**Virginia:** Retirees age 65 and older can deduct up to \$12,000 a person of retired income, subject to income eligibility limits, reduced \$1 for every \$1 that federal adjusted gross income exceeds \$50,000 (single filers) or \$75,000 (married filers).

**West Virginia:** \$2,000 exempt, plus an additional decreasing modification for military retirement up to \$20,000.



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# Military Family Benefits Criteria

**Educational assistance:** Federal legislation was passed last year (see “About In-State Tuition”) allowing veterans and their spouses and children using VA educational benefits to receive the in-state tuition rate at public colleges and universities.

Many states also offer some form of educational assistance to spouses and children whose military members died in the line of duty. Other states provide educational assistance to spouses and children of veterans with a VA disability rating. A limited number of states include National Guard

family members in these benefits.

● A green dot indicates a state offers additional educational assistance to students in the indicated category.

● A black outline to a green dot indicates the benefit extends to dependents of National Guard members.

● Red indicates a state does not offer additional educational assistance.

**Military student identifier:** About 1 million children in military families attend U.S. public schools, but according to the Government Accountability Office, “There is no data available on

these students that could be used to assess the academic achievement or educational outcomes, or determine where funding needs are the greatest.”

A unique military student identifier would facilitate better monitoring of their progress and yield information on the challenges they face. Learn more at [www.usa4militaryfamilies.dod.mil](http://www.usa4militaryfamilies.dod.mil); click on No. 9 under “10 Key Issues.”

● A green dot indicates a state assigns a unique identifier to military children in its educational systems; ● Red indicates it does not.

**Medicaid waiver:** Certain “exceptional family members” of servicemembers are eligible for assistance through TRICARE’s Extended Care Health Option. When their sponsor transitions out of the military, they lose that coverage. Medicaid services can help fill the gap, but families who relocate often end up at the bottom of their state’s waitlist for services.

● A green dot indicates a state has policies reducing barriers to servicemembers accessing Medicaid benefits for their special needs dependents; ● red indicates otherwise.

## About In-State Tuition

The Veterans Access, Choice, and Accountability Act of 2014 included a provision granting in-state tuition rates to recent veterans at any public college or university that receives federal funding through the GI bill. The law applies to veterans enrolling within three years of discharge from a period of at least 90 days of active duty service and covers their spouses and dependent children as well as those of deceased veterans meeting certain criteria. ● It was intended to go into effect July 1, 2015. However, for a variety of reasons, some states or schools still are not in compliance with the act. ● VA Secretary Robert McDonald announced in May he would push back the deadline, giving schools more time to comply before forfeiting their GI bill funding. The new deadline for state compliance is Jan. 1, 2016.

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# Military Family Benefits

**THE POLICIES AND PROGRAMS BELOW** generally benefit military family members, including families of currently serving and transitioning servicemembers and veterans and surviving children and spouses of deceased servicemembers. Visit [www.usa4militaryfamilies.dod.mil](http://www.usa4militaryfamilies.dod.mil) to learn more about how your state can support military families.

**CURRENTLY SERVING FAMILY BENEFITS**

- YES/SOME RESTRICTIONS APPLY
- APPLIES TO NATIONAL GUARD
- NO/MINIMAL

	ALABAMA	ALASKA	ARIZONA	ARKANSAS	CALIFORNIA	COLORADO	D.C.	CONNECTICUT	DELAWARE	FLORIDA	GEORGIA	HAWAII	IDAHO	ILLINOIS	INDIANA	IOWA	KANSAS	KENTUCKY	LOUISIANA	MAINE	
<b>EDUCATIONAL ASSISTANCE</b>																					
Survivors	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Surviving Children	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Spouse of Veteran with VA Disability Rating	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Children of Veteran with VA Disability Rating	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
<b>MILITARY STUDENT IDENTIFIER</b>	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
<b>MEDICAID WAIVER</b>	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●

**EDUCATIONAL ASSISTANCE NOTES**

Below is additional clarification of state policies regarding dependent eligibility for educational assistance. Space limitations prevent a complete description of benefits or restrictions; to learn more, consult your state's department of veterans affairs or the Office of Veterans Affairs at your public college or university.

**Alabama:** The GI Dependents' Scholarship program, managed by the Alabama Department of Veterans Affairs, pays 100 percent of the tuition, books, and fees for 10 semesters of attendance at any Alabama educational institution by spouses and dependents of veterans with a 20-percent or greater VA-rated disability; who were a POW or were declared missing in action; or who died while on active duty or as a result of service-connected disability. Residency criteria apply. Spouses or remarried widows of veterans rated 20 to 90 percent can receive six semesters.

**Alaska:** Spouse and dependents of veterans who died in the line of duty or were killed in action.

**Arkansas:** Spouse and children of veterans killed in action (after 1960).

**California:** Spouse and children of veterans who are 100-percent service-connected disabled or whose death was rated as service-connected (age/income restrictions for children). Also applies to National Guard.

**Delaware:** Spouses and children of veterans who were killed in action, died as a result of service-connected disability, or are 100-percent

service-connected disabled (deceased or living). Restrictions apply.

**Indiana:** Children of disabled veterans may be eligible for tuition waivers. Restrictions apply.

**Kentucky:** Spouse and children of veterans who died on active duty, died as a result of service-connected disability, or are 100-percent service-connected disabled or 100-percent disabled with wartime service. Residency criteria apply.

**Louisiana:** Spouse and children of veterans who died on active duty, died as a result of service-connected disability, or are rated at least 90-percent service-connected disabled.

**Maine:** Spouses and children of veterans killed in action or who died as a result of service-connected disability or have a 100-percent service-connected disability rating (deceased or living).

**Maryland:** Spouses or children of veterans who died on active duty or as a result of a service-connected disability or are 100-percent service-connected disabled.

**Massachusetts:** Children of veterans who died while on active duty in operations Enduring Freedom or Iraqi Freedom may be eligible for tuition assistance.

**Michigan:** Children of Veterans Tuition Grant. Residency criteria apply.

**Minnesota:** Spouses and children of veterans who died or are permanently and totally

disabled as a result of military service. Restrictions apply.

**Nevada:** Spouse and children of veterans who were killed in action, died as a result of a service-connected disability, or have a 100-percent service-connected disability rating (deceased or living).

**Nevada:** Spouse and children of veterans killed in the line of duty. Children of National Guard members killed in the line of duty are eligible for in-state tuition. Residency criteria apply.

**New Hampshire:** Children of veterans who were killed in action or died as a result of a service-connected disability.

**New Jersey:** Spouses and children of National Guard members killed in action. Restrictions apply.

**New Mexico:** Children ages 16 to 26 of veterans who were killed in action or died as a result of service-connected wounds. Restrictions apply.

**New York:** Children of deceased or disabled veterans. Limited; restrictions apply.

**North Carolina:** Children of certain veterans who were deceased or disabled. Limited; restrictions apply.

**North Dakota:** Spouses and children of veterans who were killed in action or died from a service-related cause or was totally disabled as result of a service-connected disability.

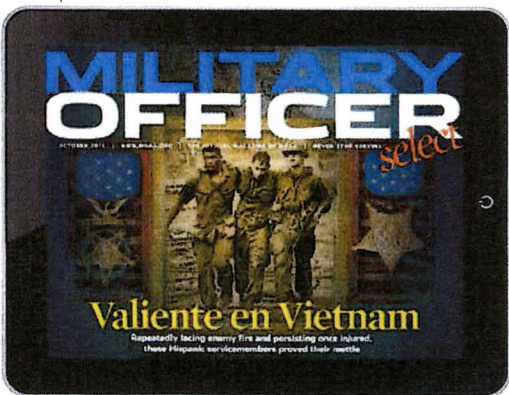
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	MARYLAND	MASSACHUSETTS	MICHIGAN	MINNESOTA	MISSISSIPPI	MISSOURI	MONTANA	NEBRASKA	NEVADA	NEW HAMPSHIRE	NEW JERSEY	NEW MEXICO	NEW YORK	NORTH CAROLINA	NORTH DAKOTA	OHIO	OKLAHOMA	OREGON	PENNSYLVANIA	RHODE ISLAND	SOUTH CAROLINA	SOUTH DAKOTA	TENNESSEE	TEXAS	UTAH	VERMONT	VIRGINIA	WASHINGTON	WEST VIRGINIA	WISCONSIN	WYOMING
Survivors	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	
Surviving Children	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	
Spouse of Veteran with VA Disability Rating	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	
Children of Veteran with VA Disability Rating	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	
Military Student Identifier	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	
Medicaid Waiver	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	

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**Ohio:** Children of veterans who are dead or severely disabled. Restrictions apply.

**Oregon:** Spouses or children of veterans are eligible for a full tuition waiver if the veteran died on active duty or as a result of a service-connected disability or is 100-percent service-connected disabled.

**Pennsylvania:** "Gratuities" (\$500 a semester) for children of veterans who died in service during a period of war or conflict or have a 100-percent permanent and total service-connected disability. Restrictions apply.

**Rhode Island:** "Gratuities" (\$500 a semester) for children of veterans who died in service during a period of war or conflict or have a 100-percent permanent and total service-connected disability. Restrictions apply.

**South Carolina:** Spouses and children of veterans who were killed in action, died as a result of a service-connected disability, or died in service.

**South Dakota:** Free tuition for children (under age 25) of veterans who died during service. Free tuition for children or spouse of National Guard members who died or are permanently and totally disabled because of service.

**Tennessee:** Dependent children (under 23) are entitled to free tuition and fees if their veteran parent was killed or died as a result of service-connected injuries.

**Texas:** Spouses and children of veterans who died as result of service-related injuries or are 100-percent disabled. Restrictions apply.

**Utah:** Surviving dependents of service-members killed in action on or after Sept. 11, 2001, are eligible for a tuition waiver at state schools.

**Virginia:** The Virginia Military Survivors and Dependents Program provides education benefits to spouses and children of service-members (including National Guard members) killed or at least 90-percent disabled as a result of military service in an armed conflict.

**West Virginia:** Spouses and children of veterans who were killed in action or died as a result of service-connected disability.

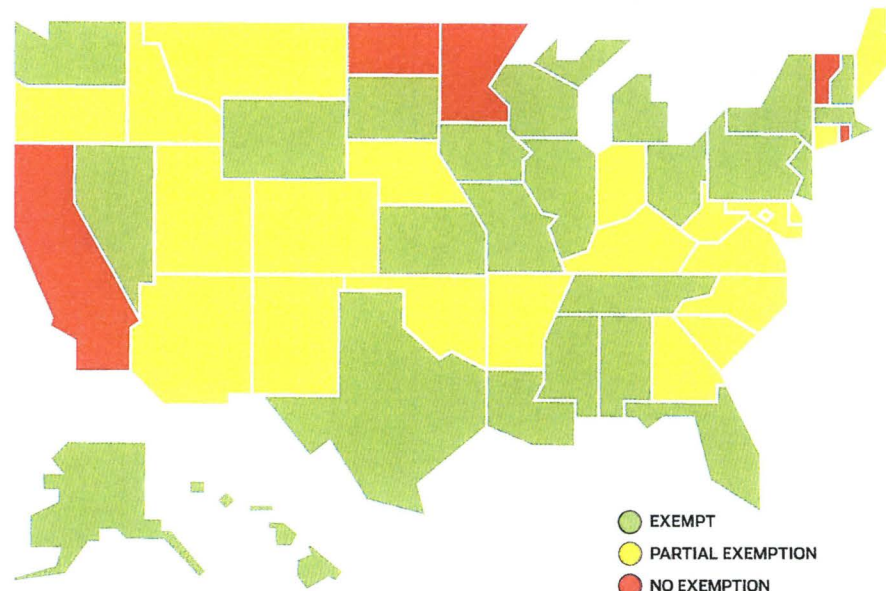
**Wisconsin:** GI bill also provides tuition remission benefits for the eligible spouse, unremarried surviving spouse, and children of certain deceased and disabled veterans. Restrictions apply.

**Wyoming:** Spouses and children of veterans who died in combat.

**MOAA**  
State-by-State  
Assessment



## Taxation of Military Retired Pay



**Military Retirement Pay Exempt From State Taxes:** Some states allow military retirees to exempt a specific amount, a percentage, or full military retired pay from state income taxation. Note that Tennessee and New Hampshire tax only dividend and interest income, while Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming have no state income tax.

Veterans also might receive exemptions for disability pay, and spouses might be able to receive exemptions for their survivor benefits. **MO**

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The information in this guide is, to the best of our knowledge, correct as of Oct. 1, 2015.

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