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## States That Don't Tax Military Retirement Pay



### Military veterans should consider retiring to one of these states if they want to lighten their tax burden

Many people intention plan on retiring in a state where they can get the most bang for their buck, and military veterans are no exception. For them, this often involves finding a state that doesn't tax military retirement pay, or else offers a generous exemption.

In the lists below, you'll find a breakdown of how military retirement pay is treated by the tax codes of the various states. In those states not included, military retirement pay is fully taxable.

#### States with No Income Tax

At the top of the list are the nine states that have no state income tax at all. By default, military retirement pay is completely exempt from tax. These states are:

- Alaska
- Florida
- Nevada
- New Hampshire
- South Dakota
- Tennessee
- Texas
- Washington
- Wyoming

*9 STATES*

Note: New Hampshire and Tennessee both tax interest and dividends. For most taxpayers, however, this would constitute a relatively small portion of total income.

#### States That Exempt Military Retirement Pay

These states do have an income tax, but they exempt military retirement pay entirely. These states are:

- Alabama
- Hawaii
- Illinois
- Kansas
- Louisiana
- Massachusetts

*+ CONNECTICUT  
+ MARYLAND*

*13 states*

- Michigan
- Mississippi
- New Jersey
- New York
- Ohio
- Pennsylvania
- Wisconsin

## The Special Cases

Finally there are several states that do not offer a full exemption of military retirement pay but do offer some form of preferential treatment.

- **Arizona** – Military retirement pay is not exempt, but you can subtract up to \$2,500 for military pensions in arriving at Arizona taxable income.
- **Arkansas** – Retired military personnel are entitled to a \$6,000 exemption.
- **Colorado** – Persons who were 55-64 years of age as of December 31 may exclude up to \$20,000 of their military retirement benefits received during the calendar year. Persons who were 65 years of age or older as of December 31, may exclude up to \$24,000 of their military retirement benefits received during the calendar year.
- **Connecticut** – Connecticut exempts 50% of federally taxable military retirement pay from state income tax.
- **Delaware** – Individuals under the age of 60 can exclude up to \$2,000 of military retirement pay and individuals 60 and over can exclude up to \$12,500.
- **Idaho** – Retirement benefits to a retired member of the military 65 or older, or disabled and age 62 or older are deductible. The amount deducted must be reduced by retirement benefits paid under the Federal Social Security Act or the Tier 1 Federal Railroad Retirement Act. The maximum amounts that may be deducted are \$41,814 for married filing jointly and \$27,876 for single. The amount varies from year to year.
- **Indiana** – You can deduct the actual amount of retirement pay received or \$5,000, whichever is less, if you meet certain conditions.
- **Iowa** – Up to \$10,000 (joint returns), and up to \$5,000 (other returns) of military retired pay and SBP benefits may be excluded for those who are 55 years old and older, disabled, and for surviving spouses.
- **Kentucky** – If you retired in 1997 or before, all of your retired military pay is exempt from tax. If you retired after 1997, your pay is subject to state tax if it exceeds \$41,110.
- **Maryland** – Military retirees are exempt from Maryland income tax on the first \$5,000 of their retirement income. In addition, military retirees who are over the age of 65, totally disabled, or who have a spouse who is totally disabled, receive an additional subtraction.
- **Missouri** – For the tax year beginning January 1, 2012, 45% of a military pension income will be exempt from MO state tax. This tax deduction will increase 15% annually until January 1, 2016 when all military pension income will be tax free.
- **Montana** – The first \$3,600.00 of retired military pay is exempt from income tax.
- **North Carolina** – Retirees with five years of service as of August 12, 1989 are fully exempt. For everyone else, military retired pay is taxed, but up to \$4,000 (\$8,000 for married filing jointly) may be excluded.
- **Oklahoma** – Each individual may exclude 75% of their retirement benefits or \$10,000, whichever is greater, but not to exceed the amount included in the federal adjusted gross income.
- **Oregon** – If you receive military retirement pay, you may qualify for a federal pension subtraction. If you are a special-case Oregon resident, your pension remains taxable as Oregon-source income.
- **South Carolina** – Any person retired from the uniformed services is allowed an exemption from SC income tax of \$3,000 until age 65. At age 65 \$10,000 of retirement pay is exempt.
- **West Virginia** – An individual, regardless of age, may deduct up to \$2,000 of benefits received from military retirement.

While you're planning ahead for the future, don't forget about filing this year's state and federal taxes. You can do that right here on RapidTax (<http://www.rapidtax.com/>).

Photo via DVIDSHUB (<http://www.flickr.com/photos/dvids/5249797056/>) on Flickr.

Tags: military (<http://www.rapidtax.com/blog/tag/military/>)

This entry was posted on Monday, March 18th, 2013 at 3:25 pm and is filed under Tax Tips (<http://www.rapidtax.com/blog/category/tax-tips/>).

## 106 Responses to "States That Don't Tax Military Retirement Pay"

1.  David Beemer says:

May 15, 2013 at 2:20 pm (<http://www.rapidtax.com/blog/states-that-dont-tax-military-retirement-pay/#comment-38574>)  
You forgot NC!

Reply ([/blog/states-that-dont-tax-military-retirement-pay/?replytocom=38574#respond](http://www.rapidtax.com/blog/states-that-dont-tax-military-retirement-pay/?replytocom=38574#respond))

•  Tax Advisor (<http://www.rapidtax.com/>) says:

May 16, 2013 at 9:34 am (<http://www.rapidtax.com/blog/states-that-dont-tax-military-retirement-pay/#comment-38767>)

Hi David,

North Carolina is included under Special Cases, but still a good place for vets to retire.

Reply ([/blog/states-that-dont-tax-military-retirement-pay/?replytocom=38767#respond](http://www.rapidtax.com/blog/states-that-dont-tax-military-retirement-pay/?replytocom=38767#respond))

•  Cyndi says:

February 25, 2014 at 7:50 am (<http://www.rapidtax.com/blog/states-that-dont-tax-military-retirement-pay/#comment-60435>)

How is NC a good place for Vets? My husband Are contemplating not retiring to NC due to changes in their tax laws. He as served sine Sep, 1985 and falls 1 year shot of the Aug, 1989 cut off. I will continue to work full time while my husband is retired. Can you please show me how this it will benefit us to retire in NC. Other states we are considering include GA or FL.