



## Senate Bill 17-075

### Creation of a State Income Tax Deduction for Military Retirement Benefits

**Sponsors:** Sen. Larry Crowder; Reps. Lois Landgraf & Jessie Danielson.

**Summary of Legislation as Passed by the Senate:** This bill provides for the phase-in exclusion of all military retirement pay from state income tax in 10% increments over 10 years.

### Reasons to Support SB17-075:

**Economic Development:** *Colorado's economy, tax base, and local governments benefit when newly retired military and their families choose Colorado as their home.*

- The Fiscal Note on SB17-075 recognizes, but does not quantify, the additional tax revenues that military retirees and their families pay on civilian employment, investment income, business income, sales and property taxes, higher education tuition from GI bill, various fees, etc.
- Military members are eligible for retirement after 20 years of service. Average age of military personnel retiring from active duty is 42.7 years. When they retire, younger retirees start second careers and make a conscious choice of what state to call home – and taxes play a big role.
- If SB17-075 becomes law, there will be an estimated NET TAX BENEFIT of \$4,673 per retiree to state and local taxes for each younger veteran choosing Colorado as home. (State income tax on average gross military retirement pay is \$1,560; combined Colorado median household income, property and sales taxes are an estimated \$6,233.)

**Workforce Development:** *Colorado employers need and value retired military skills.*

- Military retirees are highly educated, technically and globally savvy, and seek to turn their military expertise into follow-on civilian careers. They have the skills Colorado employers want.
- Military technical/professional expertise covers a wide spectrum of high value professions, including but not limited to: IT; data analysis; finance/accounting; supply chain management/logistics; medical/dental; energy technology; social work; legal services; vehicle/aircraft maintenance; law enforcement; HR; construction; education/training; public administration; strategic planning.
- Retired military "soft skills" valued by employers: leadership; communication; management; team building; planning; flexibility; integrity; problem solving; time management.

**Honoring Military Service:** *Colorado values contributions of retired military and families.*

- Retired pay exemption is tangible evidence of Colorado's goal to honor military service and sacrifice.
- 65% of retired military currently living in Colorado are from the enlisted ranks. High cost of Colorado housing is a deterrent, mitigated by the proposed retired military pay tax exemption.
- Retired military families have their own DoD health insurance (TRICARE) that is ACA compliant.
- Military retired pay is "received" in Colorado but "earned" in service throughout the U.S. and world.

## Colorado Military Retiree Data:

Source: *Statistical Report on the Military Retirement System Fiscal Year 2015, published by the Department of Defense Office of the Actuary.*

- As of September 31, 2015, Colorado has 52,577 military retirees (including Coast Guard retirees and retired members of the Reserve); 46,131 Colorado military retirees receive non-disability retirement pay.
- Medical retirement and other disability pay are not taxed by federal or state governments.
- Colorado residents receiving military retirement pay comprise 0.8% of the total population.
- 44% of Colorado residents receiving military retirement pay are age 65 or over.
- Colorado ranks No. 13 for total state residents receiving federal military retirement pay.

### Estimated Net Tax Benefit Calculations:

**Annual average gross Colorado military retirement pay x state income tax rate:**

$\$33,696 \times .0463 = \$1,560$

**2015 Combined Colorado Median Household Income, Property and Sales Taxes:**

- Median household income:  $\$63,909 \times .0463$  state income tax =  $\$2,960$

- Median home value/median home property tax:  $\$237,800 / \$1,437$

- Annual tax on \$23K car =  $\$412 / 0.017 \times 2$  cars =  $\$824$

- Approximate median household annual purchases x median Colorado sales tax

$\$13,500 \times .075 = \$1,012$

**Combined Colorado median household tax estimate:  $\$6,233$**

### State-by-State Income Tax for Military Retirement Pay:

**A. States without State Income Tax (9):** Alaska, New Hampshire\*, Florida, Nevada, South Dakota, Tennessee\*, Texas, Washington, Wyoming\* **\*Tax investment income only.**

**B. States with State Income Tax that do not tax any portion of military retirement pay (16):** Alabama, Connecticut, Hawaii, Illinois, Iowa, Kansas, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New York, Ohio, Pennsylvania, Wisconsin.

**C. States with State Income Tax that exempt some portion of Military Retirement Payment or retired pay/pensions (exemptions vary) (20):** Arizona\*\*, Arkansas, Colorado, Delaware, Georgia, Idaho, Indiana, Kentucky, Louisiana, Maine, Maryland\*\*, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, Oregon\*, North Carolina, South Carolina, West Virginia.

\* Oregon taxes military retired pay but may provide an exemption upon request.

\*\* Arizona and Arkansas State legislators introduced 2017 session bills proposing to exempt all military retirement pay from state taxes.

**D. States with State Income Tax that tax military retirement pay in full (5):** California, Rhode Island, Utah, Vermont, Virginia.

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