



COMMONWEALTH OF VIRGINIA JOINT LEADERSHIP COUNCIL OF VETERANS SERVICE ORGANIZATIONS

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Women Marines Association*

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Position Paper 2019-07

Phased-in System for Partial State Tax Exemption for Military Retirement Income

OBJECTIVE: To reform the Virginia state tax law, creating a phased in system to exempt a portion of military retirement income beginning in 2019.

BACKGROUND:

- Currently Virginia does not exempt military retirement income, while three of Virginia's neighbors (NC, WV, MD) have some level of state tax exemption on military retirement income.
- The personal income tax laws of over half the states provides various exclusions from gross income in determining tax liability, including an exclusion for combat-related special compensation and death benefit payments received by a surviving spouse or other beneficiary designated by a military veteran.

DISCUSSION:

- Non-military income, including all income derived from federal or military contracts, consulting or full-time employment will be taxed at the full gross income percentages.
- The qualifying retirement income must be received as a result of an honorable discharge and retirement from full-time, active-duty service in the armed forces of the United States, or reserve components thereof, including the National Guard.
- For each taxable year beginning on or after January 1, 2019 gross income shall not include a percentage of qualified military retirement income for retirees who are 65 years of age or older and qualified taxpayers. The phased in system would:
- Beginning in 2019: A military retiree may subtract \$10,000 of their military retirement income from federally adjusted gross income before determining Virginia tax.
- Beginning in 2021: A military retiree may subtract \$20,000 of their military retirement income from federally adjusted gross income before determining Virginia tax.
- Beginning in 2023: A military retiree may subtract \$30,000 of their military retirement income from federally adjusted gross income before determining Virginia tax.
- Beginning in 2025: A military retiree may subtract \$40,000 of their military retirement income from federally adjusted gross income before determining Virginia tax.

RECOMMENDATION: That the Governor and General Assembly support changes to the current Virginia tax laws for a phased in system to reduce state tax on military retirement income up to \$40,000.