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H.358

Introduced by Representative Wright of Burlington

Referred to Committee on

Date:

Subject: Taxation; income tax; exemptions; military retirement pay

Statement of purpose of bill as introduced: This bill proposes to exempt from State income taxation military retirement pay. The exemption is phased in over a five-year period.

An act relating to the phased-in exemption from State income taxation of military retirement pay

It is hereby enacted by the General Assembly of the State of Vermont:

Sec. 1. 32 V.S.A. § 5811 is amended to read:

§ 5811. DEFINITIONS

The following definitions shall apply throughout this chapter unless the context requires otherwise:

\* \* \*

(21) "Taxable income" means federal taxable income determined without regard to 26 U.S.C. § 168(k) and:

\* \* \*

1           (B) Decreased by the following items of income (to the extent such  
2 income is included in federal adjusted gross income):

3           (i) income from U.S. government obligations;

4           (ii) with respect to adjusted net capital gain income as defined in  
5 26 U.S.C. § 1(h) reduced by the total amount of any qualified dividend  
6 income: either the first \$5,000.00 of such adjusted net capital gain income; or  
7 40 percent of adjusted net capital gain income from the sale of assets held by  
8 the taxpayer for more than three years, except not adjusted net capital gain  
9 income from:

10           (I) the sale of any real estate or portion of real estate used by  
11 the taxpayer as a primary or nonprimary residence; or

12           (II) the sale of depreciable personal property other than farm  
13 property and standing timber; or stocks or bonds publicly traded or traded on  
14 an exchange, or any other financial instruments; regardless of whether sold by  
15 an individual or business; and provided that the total amount of decrease under  
16 this subdivision (21)(B)(ii) shall not exceed 40 percent of federal taxable  
17 income; ~~and~~

18           (iii) recapture of State and local income tax deductions not taken  
19 against Vermont income tax; and

1                    (iv) the amount of taxable payments received as military  
2                    retirement pay as calculated under section 5830e of this title.

3                    \* \* \*

4                    Sec. 2. 32 V.S.A. § 5813(w) is added to read:

5                    (w) The statutory purpose of the phased-in exemption of federally taxable  
6                    military retirement pay in section 5830e of this title is to recognize the military  
7                    service of Vermonters who derive part of their income in the form of military  
8                    retirement pay.

9                    Sec. 3. 32 V.S.A. § 5830e is added to read:

10                   § 5830e MILITARY RETIREMENT PAY

11                   Taxable income, as that term is used in subdivision 5811(21) of this title,  
12                   shall not include the following amounts:

13                   (1) 20 percent of federally taxable military retirement pay for returns  
14                   filed for taxable year 2018;

15                   (2) 40 percent of federally taxable military retirement pay for returns  
16                   filed for taxable year 2019;

17                   (3) 60 percent of federally taxable military retirement pay for returns  
18                   filed for taxable year 2020;

19                   (4) 80 percent of federally taxable military retirement pay for returns  
20                   filed for taxable year 2021; and

1           (5) 100 percent of federally taxable military pay for returns filed for  
2           taxable year 2022 and each taxable year thereafter.

3           Sec. 4. EFFECTIVE DATE

4           This act shall take effect on January 1, 2018 and apply to taxable year 2018  
5           and thereafter.