



SENATE BILL 153: Military State Income Tax Relief.

This Bill Analysis reflects the contents of the bill as it was presented in committee.

2017-2018 General Assembly

Committee:	Senate Finance. If favorable, re-refer to Rules and Operations of the Senate	Date:	June 27, 2017
Introduced by:	Sens. Rabin, Sanderson, Britt	Prepared by:	Cindy Avrette
Analysis of:	First Edition		Staff Attorney

OVERVIEW: Senate Bill 153 would exempt the following from NC income tax, effective for the 2017 taxable year:

- Pay for an active service member of any branch of the Armed Forces of the United States for any period of time the service member is not present in this State solely in compliance with military orders reassigning the service member to a permanent duty station located outside the State.
- Retirement pay for a retired member of any branch of the Armed Forces of the United States.

CURRENT LAW: Members of the military pay federal income tax on both their active duty pay and their retirement pay. North Carolina military residents pay a flat 5.499% income tax rate on their active duty and retirement pay unless it is otherwise exempt. An active duty member of the Armed Forces is a NC resident for tax purposes if NC is indicated at the state of legal residence in the member's military personnel record, regardless of whether or not the member is stationed at a duty station located in North Carolina.

Since 2014, there are few income tax emptions or deductions; however, there are the following exemptions that may apply to military pay:

- There is an income tax exemption of pay for an active military member who is serving in a combat zone or is hospitalized as a result of serving in a combat zone.
- There is an income tax exemption of retirement pay for a retired member of the military who vested prior to August 12, 1989.¹

BILL ANALYSIS: This bill would exempt from NC income tax the pay for both active duty members of the military and retired members of the military.

EFFECTIVE DATE: The bill would become effective for taxable years beginning on or after January 1, 2017.

¹ Prior to 1989, North Carolina tax law provided \$3,000 income tax exclusion for military retirees. For taxable years beginning on or after 1989, and before 2014, North Carolina tax law provided \$4,000 income tax exclusion for military retirees who did not vest prior to August 12, 1989 and a full exemption for military retirees who were vested before August 12, 1989. The tax simplification and reform legislation enacted in 2013 eliminated the \$4,000 income tax exemption for governmental retirees, including military retirees, effective for taxable years beginning on or after January 1, 2014. Military retirees who vested before August 12, 1989, receive a full State income tax exemption of the military retirement income, under the *Bailey* court decision.

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