



2021-2022 General Assembly

# HOUSE BILL 103: 2022 Appropriations Act, Sec. 42.1: Expand Income Tax Exclusion of Military Retirement Pay to NOAA and U.S. Public Health Service Retirees

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<b>Committee:</b>		<b>Date:</b>	July 13, 2022
<b>Introduced by:</b>		<b>Prepared by:</b>	Trina Griffin
<b>Analysis of:</b>	Sec. 42.1 of S.L. 2022-74		Staff Attorney

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**OVERVIEW:** Section 42.1 of S.L. 2022-74 expands the individual income tax exclusion of military retirement pay to include retirement pay for service in all uniformed services. The exclusion enacted in Section 42.1A of S.L. 2021-180 applied to members of only the Armed Forces; this provision extends the exclusion to retirees of the commissioned corps of the National Oceanic and Atmospheric Administration (NOAA) and the U.S. Public Health Service.

*This section became effective for taxable years beginning on or after January 1, 2022.*

**CURRENT LAW & BACKGROUND:** Prior to 2021, members of the military paid federal income tax on their retirement pay<sup>1</sup> except for those members of the military who vested prior to August 12, 1989; their retirement income is fully exempt from tax pursuant to the *Bailey* court decision.

[Section 42.1A of S.L. 2021-180](#) expanded the exemption for military retirees to include:

- Military retirement pay received by a retired member of the Armed Forces of the United States who served at least 20 years in the military or was medically retired from the military. Severance pay received for separation from the military is not exempt.
- Payments from the Survivor Benefit Plan to a beneficiary of a retired member of the Armed Forces of the United States who served at least 20 years in the military or was medically retired from the military.

This exemption became effective for taxable years beginning on or after January 1, 2021.

**BILL ANALYSIS:** Section 42.1 of the act expands the individual income tax exclusion for military pay to include NOAA and U.S. Public Health Service commissioned corps retirees. These individuals are part of the uniformed services of the United States, which is a broader group of individuals than the Armed Forces, which was the scope of the prior law. To qualify for the exclusion, a person must still serve at least 20 years in the respective uniformed service or be medically retired, as defined under federal law.

**EFFECTIVE DATE:** This section became effective for taxable years beginning on or after January 1, 2022.

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<sup>1</sup> For taxable years beginning on or after 1989, and before 2014, North Carolina tax law provided a \$4,000 income tax deduction for military retirees who did not vest prior to August 12, 1989. The Tax Simplification and Reform Act enacted in 2013 eliminated this deduction, effective for tax years beginning on or after January 1, 2014.

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