



HOUSE BILL 83: Eliminate Income Tax for Military Retirees.

2021-2022 General Assembly

Committee:	House Finance. If favorable, re-refer to Rules, Calendar, and Operations of the House	Date:	April 1, 2021
Introduced by:	Reps. Szoka, Bradford, Bell, Wheatley	Prepared by:	Nicholas Giddings Staff Attorney
Analysis of:	PCS to Second Edition H83-CSBAf-7		

OVERVIEW: *The PCS to House Bill 83 would exempt the following from State income taxation:*

- *Military retirement pay received by a retired member of the Armed Forces of the United States who served at least 20 years or was medically retired.*
- *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 or was medically retired.*

CURRENT LAW: Members of the military pay federal income tax on their retirement pay. North Carolina residents pay a flat 5.25% income tax rate on their adjusted gross income unless it is otherwise exempt. There is an income tax exemption of retirement pay for a retired member of the military who vested prior to August 12, 1989.

Prior to 1989, North Carolina tax law provided a \$3,000 income tax exclusion for military retirees. For taxable years beginning on or after 1989, and before 2014, North Carolina tax law provided a \$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 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, continue to receive a full State income tax exemption of their military retirement income under the *Bailey* court decision.

BILL ANALYSIS: The PCS to House Bill 83 would exempt the following from State income tax:

- 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 would not be 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.

EFFECTIVE DATE: This act would be effective for taxable years beginning on or after January 1, 2021.

BACKGROUND: The Survivor Benefit Plan is a Department of Defense sponsored and subsidized program that provides up to 55 percent of a service member's retired pay to an eligible beneficiary upon the death of the member. The payments are in the form of an annuity and are adjusted for inflation.

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