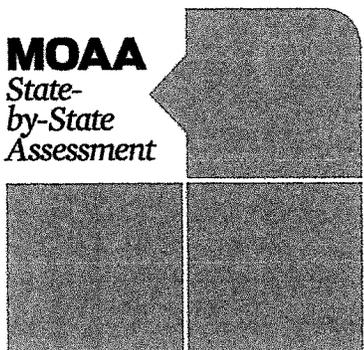


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Assessment



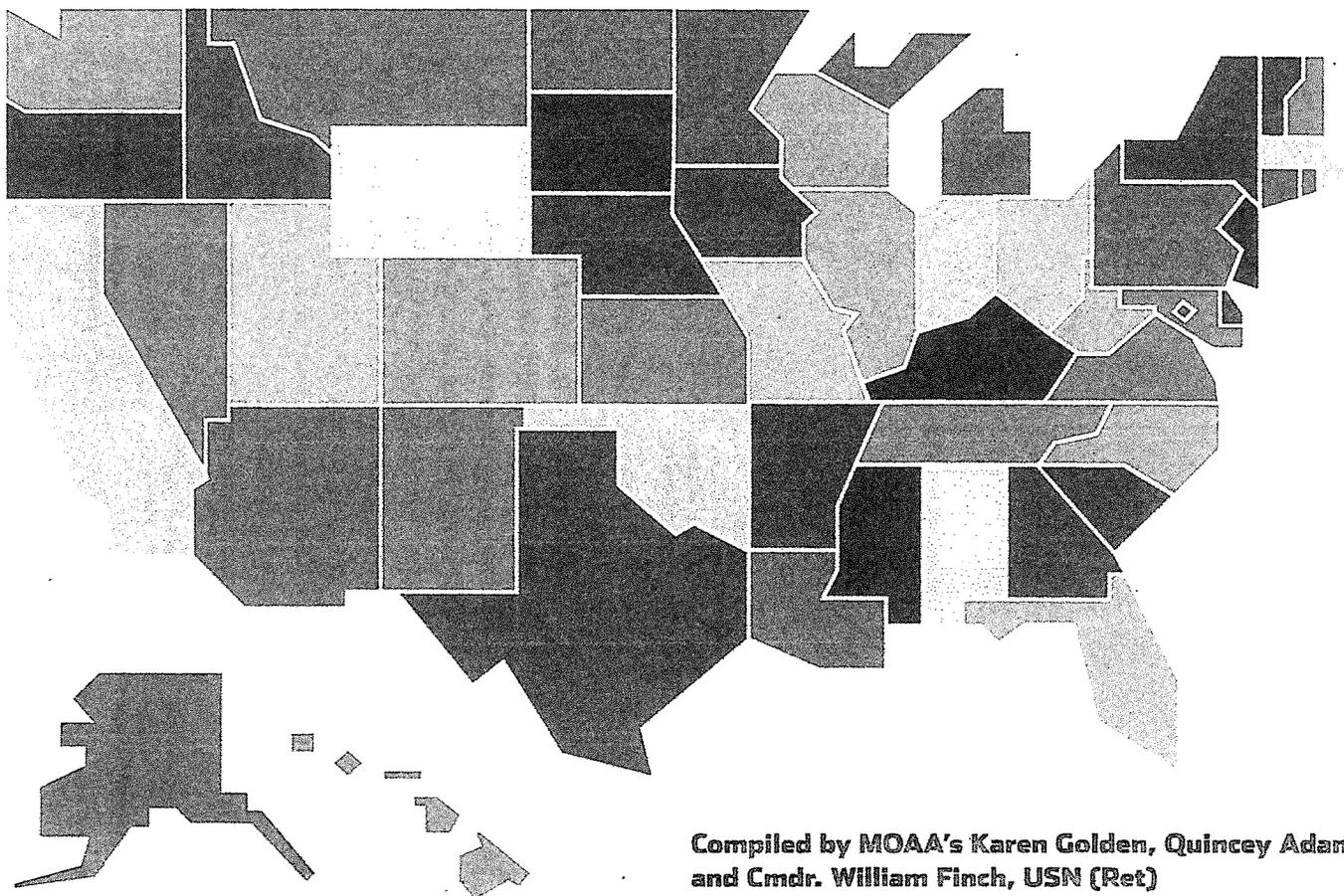
Subject State-level programs and policies affecting military retirees, veterans, and family members

Comments Use this guide to inspire and inform your advocacy at the state level for changes benefiting members of the military community.

Grade Dependent on your effort

State Report Card

for military families, veterans, and retirees



Compiled by MOAA's Karen Golden, Quincey Adams, and Cmdr. William Finch, USN (Ret)



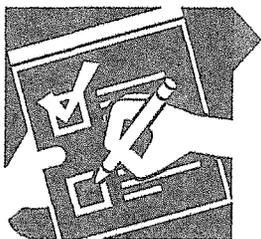
Military Retirement Pay Exempt From State Taxes: Some states allow military retirees to exempt a specific amount, a percentage, or full military retired pay from state income taxation. Note that Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming have no state income tax, while Tennessee and New Hampshire tax only dividend and interest income.

Veterans also might receive exemptions for disability pay, and spouses might be able to receive exemptions for their survivor benefits.

Property Tax Exemptions: Most states offer veteran homeowners either property tax exemptions or homestead exemptions, which limit the amount at which their property can be assessed for tax purposes. These exemptions may be based on age and/or disability rating.

Most states also offer some kind of property tax relief, which might

VETERAN



& Retiree Benefits Criteria

freeze the assessed value of a home after a veteran homeowner reaches a certain age. In addition, many counties and municipalities have their own, separate tax-relief programs for veterans.

Veterans' Preference in State Hiring: Some states offer veterans an advantage (such as additional points on a required exam, a guarantee of an interview, or similar provision)

in the hiring process for state government jobs. Specifics vary widely from state to state; check with your state's department of veterans affairs. State requirements might include proof of honorable discharge or a disability rating from the VA. Most states that extend preference to family members require a veteran to be permanently and totally disabled or killed in action.

In-State Tuition for Nonresident Veterans: Under the Post-9/11 GI Bill, the VA will pay only up to the cost of in-state tuition at public colleges. Twenty-eight states allow veterans applying as nonresident students to pay in-state tuition rates at their public colleges.

Veteran Status Noted on Driver's License/State ID: Most states now have passed legislation adding veteran's designation to driver's licenses and state-issued ID cards, thereby enabling veterans to prove their status (for veteran's discounts, for example) without carrying around their discharge papers.

About Veteran and Retiree Disability Pay

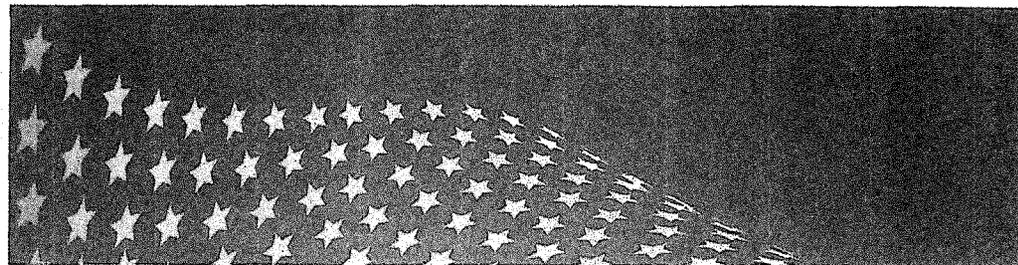
Most states determine what income is subject to taxation based on a filer's federal tax return.

Retirees who entered the military before Sept. 24, 1975, and servicemembers receiving disability retirement based on combat injuries or who could receive disability payments from the VA are covered by laws giving disability broad exemption from federal income tax —

and therefore from state taxation, in those states that follow the federal tax return.

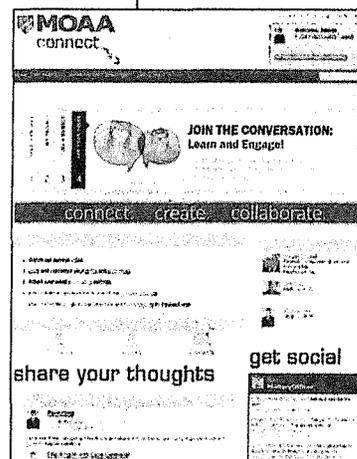
Most military retired pay based on service-related disabilities also is free from federal income tax, but there is no guarantee of total protection.

If you are uncertain about your specific situation, consult a tax expert in your state.



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BEST AND WORST STATES FOR TAXES

NO MATTER WHERE YOU RETIRE, YOU'LL owe the same amount to Uncle Sam in federal taxes. But whether you stay put or relocate can have a significant impact on what you'll owe in state taxes.

If you're thinking of pulling up roots, compare the taxes in potential retirement states with those in your current state. Wherever you retire, you may be eligible for senior-related tax breaks on retirement income. (A state with no income tax is appealing, but don't forget about sales and property taxes.)

After analyzing the tax laws of the 50 states and the District of Columbia, we've come up with a list of the ten most and the ten least tax-friendly states for retirees. The map below offers a quick snapshot. For details on the tax rules in all the states, visit kiplinger.com/links/retireetaxmap.

RETIREMENT INCOME

Looking for a state that doesn't tax income? Try Alaska, Florida, Nevada, South Dakota, Texas, Washington or Wyoming. A couple of others, New Hampshire and Tennessee, tax only dividends and interest. But Tennessee exempts taxpayers 65 and older who have total annual income of \$33,000 or less for single filers (\$59,000 for joint filers). New Hampshire offers a \$1,200 exemption for taxpayers 65 and older.

Of the 41 states plus the District of Columbia that have a broad-based income

tax, most offer breaks to protect some (and, in a couple of cases, all) retirement income. The most generous states are Mississippi and Pennsylvania, which make all retirement income tax-free, including public and private pensions and distributions from retirement accounts, such as IRAs and 401(k)s.

Most other states allow retirees to exclude part of their retirement income. Georgia offers the largest such retirement-income exclusion, at \$65,000 for a taxpayer 65 or older (couples can shelter \$130,000). For a taxpayer age 62 to 64, the first \$35,000 of retirement income is tax-free. Kentucky allows exclusions of up to \$41,110 of military retirement pay, qualified private pensions, annuity income, and civil-service and state and local government pensions.

Six states offer no safe haven for retirement income: California, Minnesota, Nebraska, North Dakota, Rhode Island and Vermont. Connecticut excludes 50% of military retirement pay from tax, but it offers no other retirement-income breaks.

SOCIAL SECURITY BENEFITS

States are pretty generous when it comes to Social Security. While Uncle Sam taxes up to 85% of your benefits, they're 100% tax-free in most states. Besides the nine states that don't have a broad-based income tax, 27 states and the District of Columbia grant Social Security benefits tax-free status.

The rest of the states tax Social Security to some extent. Rhode Island and West Virginia, for instance, tax benefits the same as the federal government does. Connecticut, Kansas and Missouri tax benefits when a taxpayer's income exceeds certain thresholds (which are above the federal levels). Some of the states, including New Mexico, allow benefits to qualify for a tax break under a broader retirement-income exclusion.

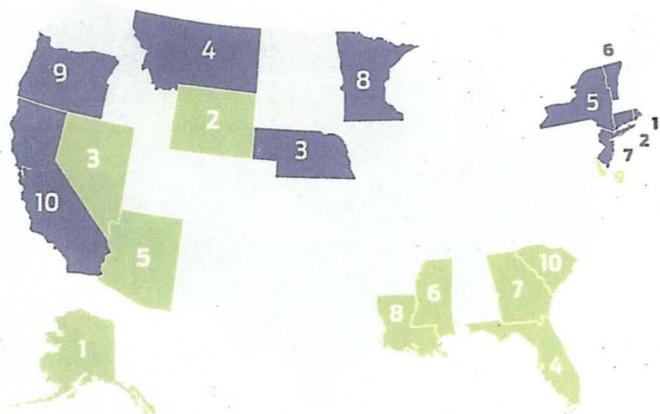
ESTATE TAXES

Although many states don't impose estate or inheritance taxes (Indiana, Ohio and North Carolina repealed their death taxes as of 2013), 19 states and the District of Columbia have at least one or the other; Maryland and New Jersey impose both levies.

An estate tax hits the estate before assets are distributed, while an inheritance tax is paid by the heirs. Tennessee, which taxes estates of more than \$1.25 million, is phasing out its tax by 2016.

A key factor is how large an estate can be before triggering the tax. Often these exemptions are lower than the federal estate tax exemption, which for 2014 is \$5.34 million. For example, in New Jersey, the exemption is \$675,000.

In addition to an estate tax, Connecticut has a gift tax with a lifetime exclusion of \$2 million. Minnesota enacted a gift tax in 2013 but repealed it in March.



MOST TAX-FRIENDLY

- 1 | Alaska
- 2 | Wyoming
- 3 | Nevada
- 4 | Florida
- 5 | Arizona
- 6 | Mississippi
- 7 | Georgia
- 8 | Louisiana
- 9 | Delaware
- 10 | South Carolina

LEAST TAX-FRIENDLY

- 1 | Rhode Island
- 2 | Connecticut
- 3 | Nebraska
- 4 | Montana
- 5 | New York
- 6 | Vermont
- 7 | New Jersey
- 8 | Minnesota
- 9 | Oregon
- 10 | California