



Testimony in Opposition to H7380, H7647, and H7382 Concerning the Exemption from Taxation of Military Retirement Income (and Other Military Income)

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Although we share with others the deepest respect and gratitude for those who have served our nation in the military and put their own lives at risk, we believe that the proposals in H7380, H7647, and H7382 to exempt certain military income from normal taxation makes for poor tax policy.

H7380 would phase out the taxability of military *pension* income altogether, H7647 would exempt \$25,000 of all types of military retirement income (not just pensions), and H7382 would exempt 50% of national guard income earned though medically related service during pandemic.

Tax rates ought to be based upon ability to pay not on personal status. For example, a veteran with earnings of a million dollars does not need her or his military pension to be made exempt from taxation. And individuals with little income, whatever the income source, ought to be liable for paying a correspondingly small amount in income taxes (they of course pay sales and property taxes). We need a fair tax code, rooted in the ability to pay – and there exist better ways to make our tax code less upside-down (upside-down in the sense that those who can least afford it pay a greater proportion of their income in overall state taxes than do those with the highest incomes). While current law does already allow exempting from taxation up to \$15,000 of certain retirement income, including military pensions, at least there is an income provision limiting the exemption to individual filers with adjusted gross income of \$87,000 and joint filers with income of \$109,050.

These three bills would all exempt income from taxation regardless of ability to pay, without any income provision to limit the exemption.

Although one might think veterans especially deserving of the proposed benefits, such measures could prove the first of many new efforts to exclude other sorts of retirement or regular income from taxation. H7380 is similar to the proposal in Article 6 of H7123, the Governor's proposed budget for FY2023, and that measure was estimated to cost the state \$5.8 million in lost annual revenue once fully implemented, but if similar proposals are enacted going forward, the result could be that the state will lose tens of millions of dollars in valuable revenue each year, some significant portion of it staying with those who least need it.