

MOAA Chapters and Members Point Paper:
Government Retirees NC State Income Tax Deduction

Background: A key component of the NC economy is the defense industry. The NC Military Affairs Commission’s Committee on Economic Development has been consulting with the Defense Alliance organization and has long recognized the need to keep highly skilled uniformed services retirees in NC to support defense industry development. The list of states that have been able to gain legislative support to accomplish taxation deductions for military retirees has grown to over 30. We must continue pursuing this same goal so that NC can be the state of choice for retaining the occupational and leadership skills, values-based citizen and community contributions and the retiree income guaranteed by the federal government. There is universal and consistent recognition and respect for uniformed services personnel who serve to defend our nation within our continental United States and globally. Retirees from Federal and State government employment would equally benefit from, and provide economic support to NC, with similar tax deduction legislation. Numerous legislators have expressed great interest in and dedication to supporting legislation that would exempt military and other government employees’ retirement benefits from state taxation and will continue to submit legislation in both chambers to support that goal. Military Officers’ Association of America (MOAA) Chapters and members will also continue to support these measures.

2021 – 22 NC General Assembly Legislation: 5 bills addressing State Income Tax deductions for retired military and government employees have already been introduced in this Legislative Session. These are S4, S12 and H52, H75 and H83. Two of these bills, S12 and H83, propose Income Tax deductions for only military retired pay. The other three also include tax relief for all Federal and State government retirees who are not covered under the Bailey-Patton-Emory ruling. These bills all differ in details and the proposed amount of the deduction, but any of them would provide significant tax relief for MOAA members, if passed. MOAA members have conducted an analysis of these bills and created the charts below showing the pros and cons of these bills:

Senate Bill 4, Equal Tax Treatment of Gov’t Retirees

Pro	Con
Exempts retired pay from federal, state and local government	Requires a “trigger” based on amount of taxes collected into the state General Fund
Separates military retirees from all other with a lower “trigger” for military retirees	Proposed legislation does not specify that once “trigger” amount is met, the exemption remains in force even if tax collections fall below the “trigger” amount.

Senate Bill 12 Military Retiree State Income Tax Relief

Pro	Con
Specifically includes Baily, Emory, Patton (BEP) retirees as tax exempt for entire income	Establishes eligibility age at 55, excluding retirees who retire in mid 40s. This is a disincentive for a person retiring from the military at age 40 who would face 15 years during which entire retired pay would be taxed.

Adds retirees not currently grandfathered by BEP	Requires a minimum of 20 years of service, excluding service members who retired early by choice at reduced pay or disability retirees
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House Bill 52 Equal Tax Treatment of Gov't Retirees

Pro	Con
Provides ALL retirees, military and civilian from any retirement plan a total tax exemption	Fails to include gap between personnel grandfathered by BEP (Aug 1989) and initiation of proposal (Aug 1992)
Provides reciprocity with other state retirement plans encouraging in-migration to North Carolina	May be too expensive for the state to bear by including all retirees from any employment with a retirement plan

House Bill 75 Gov't Retirees tax Deduction

Pro	Con
Includes every retiree, federal, state, local, civilian employer and self-employed	Limits tax exempt amount to \$3000 times the number of years a taxpayer has claimed a deduction. The phrase "the number of years a taxpayer has claimed a deduction" is unclear. Does this mean the number of years a taxpayer worked?
	Limits tax exempt retired pay to a maximum of \$30,000. This adversely impacts senior retirees to less than half of their retired pay and is a disincentive for the most senior, brightest and most capable to retire in North Carolina

House Bill 83

Pro	Con
Specifically includes BEP retirees	None noted.
Covers all military retirees	

Desired Outcome: During the past several Legislative Sessions, similar bills were introduced. These were invariably referred to committee where no further action was taken. During this Session, MOAA members urge our legislators to become sponsors of and advocates for these tax deduction efforts. Please work with your colleagues on the various committees to ensure that these bills receive a full review with the goal of moving them out of committee for a vote. The House and Senate versions of these bills contain many common elements that could easily be combined into a final bill that would find greater support in both Houses. Again, we urge you to work with your colleagues to develop a suitable final bill that could be passed in the 2021-22 Session.