ISSUE BRIEF

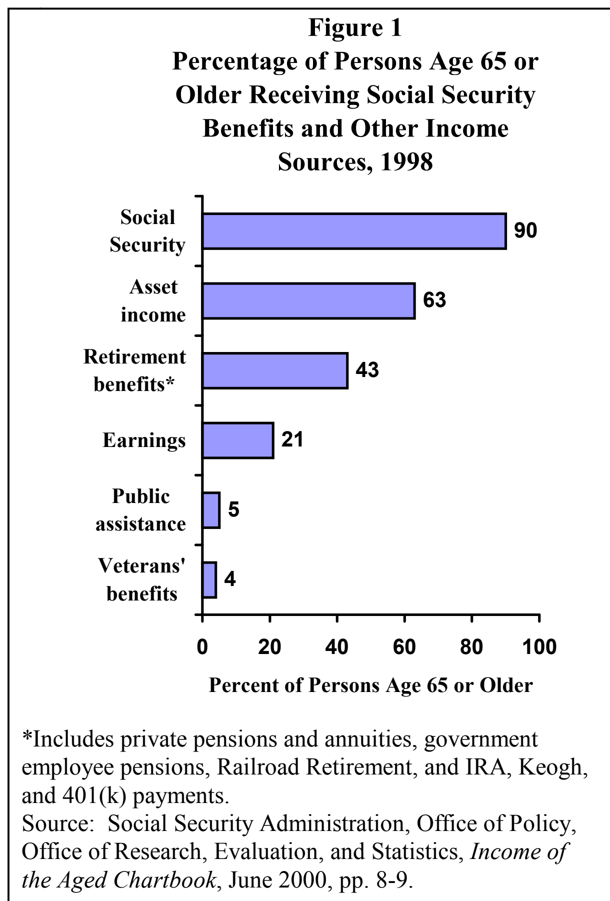
PUBLIC POLICY INSTITUTE

STATE TAXATION OF SOCIAL SECURITY AND PENSIONS IN 2000

Introduction

The tax treatment of Social Security benefits and pension income by state governments is a critical concern for older Americans because these are two of their primary sources of income. As shown in Figure 1, in 1998, nine out of ten aged units[i] received Social Security benefits, and more than two in five received retirement benefits.

Figure 1
Percentage of Persons Age 65 or Older Receiving Social Security Benefits and Other Income Sources, 1998



*Includes private pensions and annuities, government employee pensions, Railroad Retirement, and IRA, Keogh, and 401(k) payments.
Source: Social Security Administration, Office of Policy, Office of Research, Evaluation, and Statistics, *Income of the Aged Chartbook*, June 2000, pp. 8-9.

In 2000 the sources of income of persons age 65 or older were 40 percent from Social Security benefits, 17 percent from pension income (company or union pension, federal government retirement, U.S. military retirement, and U.S. Railroad retirement), 20 percent from earnings, and 15 percent from dividends and interest.[1] As income increases, people are more dependent upon pension income; as income decreases, people are more dependent upon Social Security benefits (see Table 1). Social Security benefits made up at least half of total income for 63 percent of Social Security beneficiaries.[2]

Since 1984, the federal government has taxed a portion of Social Security and Railroad Retirement benefits of higher-income beneficiaries. Social Security benefits are taxed if beneficiaries'"provisional income"[ii] exceeds $25,000 for single persons or $32,000 for married couples filing jointly.

From 1984 to 1993, if provisional income exceeded the $25,000 (single persons) or $32,000 (married, filing jointly) thresholds, the amount of benefits subject to taxes was the lesser of:

(a) one-half of the excess of provisional income over the threshold amount, or

(b) one-half of Social Security benefits and Railroad Retirement Social Security equivalent benefits.

However, in 1994, the percentage of Social Security benefits that may be taxed increased for some higher-income taxpayers (as described on page two under the Omnibus Budget Reconciliation Act of 1993).

Because the income thresholds of $25,000 (single persons) and $32,000 (married, filing jointly) have not been indexed for inflation, each year a greater proportion of Social Security

[i] An aged unit is a married couple living together with either the husband or wife age 65 or older, or a person age 65 or older who does not live with a spouse.

[ii] Provisional income in tax year 2000 was defined as the sum of (1) federal adjusted gross income (AGI) (excluding Social Security benefits and the deduction for student loan interest), (2) tax-free interest income, and (3) one-half of Social Security benefits.

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beneficiaries is likely to pay taxes on their benefits as their incomes increase. To illustrate, in tax year 1984, about eight percent of beneficiaries paid taxes on their benefits.[3] On the other hand, of the 45.4 million beneficiaries receiving Social Security payments in December 2000[4], an estimated 32 percent (14.5 million) paid income taxes on their benefits.[5]

Table 1
Shares of 2000 Aggregate Income for Persons Age 65 or Older by Income Range (in percents)

Income Sources	First Quartile Up to $7,950	Second Quartile $7,950 to $13,358	Third Quartile $13,358 to $23,880	Fourth Quartile $23,880 to $515,077	Total for All Incomes
Social Security Benefits	86	82	57	22	40
Pension Income	2	5	18	20	17
Dividends and Interest	5	7	11	19	15
Earnings	1	3	7	30	20
Other Income	7	5	7	9	8

Source: Bureau of the Census, *Current Population Survey*, *March 2001,*conducted by the Bureau of the Census for the Bureau of Labor Statistics-Washington, DC: Bureau of the Census, 2001

Moreover, in 1998, out of 12.1 million tax returns that showed Social Security benefits as income, about 74 percent (8.9 million) reported taxpayers paying taxes on their benefits.[6] These data refer only to taxpayers who filed income tax returns and are the most recent data available. About half of the households with one person age 65 or older either were not required to file returns or had no tax liability.

The Omnibus Budget Reconciliation Act of 1993 (OBRA 93)

Since 1994, some Social Security beneficiaries have paid even higher federal income taxes than before on their Social Security benefits because of a provision of the Omnibus Budget Reconciliation Act of 1993 (OBRA 93).

There is no change in taxable Social Security due to OBRA 93 if provisional income is between $25,000 and $34,000 (single filers) or between $32,000 and $44,000 (married, filing jointly). At these income levels, up to 50 percent of the Social Security benefits may be taxed.

However, OBRA 93 increased the percentage of benefits that may be taxed from 50 percent to 85 percent for those whose provisional incomes are greater than $34,000 (single filers) or $44,000 (married, filing jointly). For taxpayers whose provisional incomes exceed these higher thresholds, the amount of benefits subject to tax is the lesser of:

(a) 85 percent of Social Security benefits and Railroad Retirement Social Security equivalent benefits or

(b) 85 percent of income over the higher OBRA 93 threshold, plus the smaller of

    (1) $4,500 (single filers), $6,000 (married, filing jointly) or

    (2) 50 percent of the Social Security benefit amount.[7]

Like the pre-OBRA 93 thresholds, none of these new thresholds is indexed for inflation. Approximately 6.7 million tax returns will be filed by taxpayers who are required to pay higher Social Security federal income taxes due to OBRA 93 in 2001.[8]

Many states' income taxes are directly tied to the federal tax code because their taxable base begins with federal adjusted gross income, federal taxable income, or federal taxes paid. Therefore, increases in the income tax base at the federal level, such as that resulting from the inclusion of Social Security benefits in income, will automatically result in increased state income taxes, unless state legislatures enact provisions offsetting the federal increase.

State Taxation of Social Security Benefits

Currently, 26 of the 41 states (and the District of Columbia) that have broad-based personal income taxes do not tax Social Security benefits. The 15 states that tax Social Security benefits are Colorado, Connecticut, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Rhode Island, Utah, Vermont, West Virginia, and Wisconsin. These are shown in Table 2.

The impact of higher state taxes on Social Security benefits among the 15 states that tax Social Security benefits has been lessened because of actions some of the states have taken. Wisconsin, Iowa, and Connecticut do not pass on the higher OBRA 93 Social Security taxes. Wisconsin and Iowa require beneficiaries to pay income tax on up to 50 percent of Social Security benefits based on the original thresholds of $25,000 (single filers) and $32,000 (married, filing jointly).

Connecticut requires only taxpayers whose federal adjusted gross income is $50,000 or more (single filers) or $60,000 or more (married, filing jointly) to be subject to taxation of their Social Security benefits. For those taxpayers who are affected, only up to 25 percent of their benefits can be taxed.

Colorado, Minnesota, New Mexico, Utah, and West Virginia allow Social Security benefits to be deducted as part of a retirement income exemption (as described in Table 2 and its endnote section).

Beneficiaries in Iowa, Missouri, Montana, North Dakota, and Utah who pay more in *federal* income taxes on Social Security benefits will pay less in state taxes, since federal taxes are either *fully* (Iowa, Montana, North Dakota) or *partially* (Missouri and Utah) deductible from taxable income. However, only taxpayers who itemize can deduct federal taxes in Montana, and only those who use the long form can deduct federal taxes in North Dakota.

Some beneficiaries in Montana also get an exclusion from Social Security benefits based on differences between the federal and Montana tax bases.

State Taxation of Pension Income in 2000

<u>Relevant Supreme Court Cases</u>

Prior to 1989, many states fully exempted state pensions from income taxation. In March 1989, the U.S. Supreme Court's *Davis v. Michigan* decision *(489 U.S. 803)* ruled that states must treat federal pensioners at least as well as they treat their state pensioners. The Court expanded this decision in April 1992, ruling in *Barker v. Kansas (503 U.S. 594)* that states are prohibited from taxing the pension benefits of U.S. military retirees while exempting the pensions of state and local government retirees.

An issue not addressed by *Davis* was whether states affected by that decision must give refunds to those federal retirees who had paid taxes under laws that had been struck down

by that decision. In June 1993, the U.S. Supreme Court gave its first direct ruling on this matter in *Harper v. Virginia Department of Taxation (509 U.S. 86).* The Court did not require states to pay refunds, but ruled that they would have to “provide relief consistent with federal due process principles" if state “predeprivation procedures” were unavailable.

Predeprivation procedures are any means by which state governments allow taxpayers to contest a tax before it is paid. This relief could involve refunds. All states have settled with or have paid affected federal retirees.

State Treatment of Pension Income in 2000

Table 2 summarizes the state income tax treatment of pension income for tax year 2000 for the 41 states and the District of Columbia that have a broad-based income tax. The chart describes pension exemptions for *single filers* only.

In Table 2, the final column (income restrictions) reveals only whether pensioners' incomes preclude them from receiving *any* state exemption; it does not indicate whether exemption *amounts* are reduced based on income levels. The endnotes to Table 2 give more details about other state retirement income exclusions and credits (e.g., exclusions based on *all* retirement income, not just pension income), other filing status information, and age and income restrictions (both for pension income and other retirement income).

Most states that impose an income tax exempt at least part of pension income from taxable income. Different types of pension income (private, military, federal civil service, and state or local government) are often treated differently for tax purposes.

Only three states--Illinois, Mississippi, and Pennsylvania--fully exempt all public and private pensions from taxation.

Seven states fully exempt public pensions (federal civil service, military, state, and local government pensions) from taxes, but do not fully exempt private pensions. These states are Alabama, Hawaii, Kansas, Louisiana, Massachusetts, Michigan, and New York.

In Hawaii, employee contributions and pension earnings are exempt from tax in noncontributory private pensions (where contributions are only from employers). However, private pensions involving employee contributions are partially taxable: only earnings attributable to employee contributions are taxable. Alabama fully exempts public pensions, but exempts only those private pensions that are defined benefit plans.

Wisconsin fully exempts public pensions from state taxes only for taxpayers who retired prior to 1964 or who became members of the retirement system before 1964 and then retired at a later date. Wisconsin does not exempt private pensions from state taxes.

Fifteen states and the District of Columbia offer pension exemptions that vary by type, with public pensions generally being treated more favorably than private pensions.[9]

Many states offer at least partial exemptions from state taxes for some types of pensions. Eight states specifically offer identical partial exemptions for all pensions. These are Arkansas, Colorado, Delaware, Iowa, Maine, Montana, South Carolina, and Utah.

Georgia, Minnesota, New Mexico, Utah, and Virginia provide the same partial exemptions for all income sources, not just for pension income (both public and private). Utah provides identical partial exemptions for all income sources only for taxpayers age 65 or older; younger taxpayers are eligible for the same partial exemption for only pensions, annuities, and taxable Social Security benefits.

Five states (California, Connecticut, Nebraska, Rhode Island, and Vermont) allow no exemptions or tax credits for pension and other retirement income that is counted in federal adjusted gross income.

Most in-state government pensions are taxed the same as out-of-state government pensions. However, Arizona, Idaho, Kansas, Louisiana, New York, and Oklahoma provide greater tax relief for in-state government pension plans than for out-of-state government pension plans. The District of Columbia also provides greater tax relief for District of Columbia government pensions than for state government pensions.

Michigan and Massachusetts also provide greater tax relief for in-state-government pensions; however, there is a reciprocity exception. Michigan and Massachusetts will not tax residents who receive public pensions from other states if those states do not tax out-of-state government pensions of residents who were Michigan or Massachusetts employees.

Age Limitations

Of the 36 states and the District of Columbia that offer exemptions or tax credits primarily for pension income and for other retirement income, 16 states and the District of Columbia require pensioners to be a minimum age (varying from 55 to 65) to receive a tax exemption or credit.[10]

Income Limitations

Tax exemption amounts or tax credits for pension and other retirement income for nine of the states (Maryland, Minnesota, Missouri, Montana, New Mexico, Ohio, Oklahoma, Oregon, and Utah) are based on taxpayer adjusted gross income. Pension and other income exemptions are reduced dollar for dollar by Social Security benefits and/or Railroad Retirement benefits in Idaho, Indiana (for federal civil service pensioners only), Maine, Maryland, Minnesota, and North Dakota.

Taxation of Nonresident State Pensions

Starting in tax year 1996, states were prohibited from taxing distributions from nonresident pension and other retirement income plans because of Public Law No. 104-95 (passed by Congress in December 1995). Although most retirement plans of nonresidents are now exempt because of this law, examples of nonresident retirement income that is still taxable include nonqualified plans that are periodically paid out over fewer than ten years and various forms of compensation (such as stock options, severance pay lump-sums, and incentive bonuses that are typically granted to highly compensated employees).

Public Law No. 104-95 cost New York approximately $10 million per year[11] and California approximately $25 million per year.[12] Although states like New York and California lose tax revenues from this law, some states have benefited. States like New Mexico, which used to provide tax credits to residents who paid taxes to other states on nonresident pension income, benefit from this law.

Former residents who earn taxable nonqualified pension income must file nonresident income tax forms. In most states with an income tax, that tax can be credited against the income tax owed to the state of former residence.

The tax treatment of lump-sum distributions varies considerably by state, but most offer some kind of income averaging for tax purposes.

State Taxation of IRAs in 2000

Three states (New Jersey, Massachusetts, and Pennsylvania) do not allow IRA contributions to be deducted from taxable income. Of the three, only Pennsylvania does not tax IRA earnings of taxpayers age 59 1/2 years or older, since earnings are treated like pension income, which is tax exempt.

From 1981 through 1986, Georgia and California did not conform to federal eligibility and deduction rules—instead, they followed federal rules that existed between 1975 and 1981. This resulted in many taxpayers receiving a $2,000 federal deduction while receiving only a $1,500 state deduction. In addition, taxpayers who were covered by an employer-sponsored qualified retirement plan could not deduct their contributions from their state returns but could deduct them from their federal returns.

[1] Bureau of the Census, *Current Population Survey*, *March 2001,* conducted by the Bureau of the Census for the Bureau of Labor Statistics-Washington, DC: Bureau of the Census, 2001.

2 Social Security Administration, Office of Policy, Office of Research, Evaluation, and Statistics, *Income of the Aged Chartbook*, June 2000, pp. 8-9.

[3] U.S. House of Representatives, Committee on Ways and Means, 2000 *Green Book.* (Washington, DC: U.S. Government Printing Office, October 6, 2000), p. 28.

[4] Social Security Administration, Office of Policy, (http://www.ssa.gov/policy/programs/ssd.html).

[5]U.S. House of Representatives, Committee on Ways and Means, 2000 *Green Book.* (Washington, DC: U.S. Government Printing Office, October 6, 2000), p. 65.

[6] Special Tabulation of Tax Year 1997 Individual Complete Report File, Statistics of Income Division, IRS, May 2000.

[7] Laurel Beedon and Alison Shelton, AARP, Public Policy Institute, *Will Your Social Security Benefits Be Taxed?* (Washington, DC: August 2001), p.1.

[8]Estimate based on the AARP-Barents Group Individual Income Tax Model.

[9] These states are Alabama, Arizona, Idaho, Indiana, Kansas, Kentucky, Louisiana, Massachusetts, Michigan, Missouri, New York, North Carolina, North Dakota, Oklahoma, and West Virginia.

[10] These states are Colorado, Georgia, Idaho, Indiana, Iowa, Louisiana, Maryland, Minnesota, New Jersey, New Mexico, New York, North Dakota, Oklahoma, Oregon, Pennsylvania, and Virginia.

[11] New York State Department of Taxation and Finance.

[12] California Franchise Tax Board.

Table 2
State Income Tax Treatment of Social Security Benefits and Pension Income, 2000 (single filers)

State	Is Social Security Tax Exempt?	Private Exemption	Military Exemption	Federal Exemption	State and Local Exemption	Age Minimum for Pension Exclusions?	Income Restrictions for Pension Exclusions?
Alabama	Yes	None/Full	Full	Full	Full	No	No
Arizona	Yes	None	$2,500	$2,500	$2,500	No	No
Arkansas	Yes	$6,000	$6,000	$6,000	$6,000	No	No
California	Yes	None	None	None	None	N/A	N/A
Colorado	No	$24,000/$20,000	$24,000/$20,000	$24,000/$20,000	$24,000/$20,000	Yes	No
Connecticut	No	None	None	None	None	N/A	N/A
Delaware	Yes	$12,500/$2,000	$12,500/$2,000	$12,500/$2,000	$12,500/$2,000	No	No
District of Columbia	Yes	None	$3,000	$3,000	$3,000	Yes	No
Georgia	Yes	---------------------- See endnote ----------------------				Yes	No
Hawaii	Yes	Full/Part	Full	Full	Full	No	No
Idaho	Yes	None	$17,196	$17,196	$17,196	Yes	No
Illinois	Yes	Full	Full	Full	Full	No	No
Indiana	Yes	None	$2,000	$2,000	None	Yes	No
Iowa	No	$5,000	$5,000	$5,000	$5,000	Yes	No
Kansas	No	None	Full	Full	Full	No	No
Kentucky	Yes	$36,414	---------------- See endnote ----------------			No	No
Louisiana	Yes	$6,000	Full	Full	Full	Yes	No

Table 2
State Income Tax Treatment of Social Security Benefits and Pension Income, 2000
(single filers)

State	Is Social Security Tax Exempt?	Private Exemption	Military Exemption	Federal Exemption	State and Local Exemption	Age Minimum for Pension Exclusions?	Income Restrictions for Pension Exclusions?
Maine	Yes	$6,000	$6,000	$6,000	$6,000	No	No
Maryland	Yes	$16,500	$16,500 to $19,000	$16,500	$16,500	Yes	Yes
Massachusetts	Yes	None	Full	Full	Full	No	No
Michigan	Yes	$34,920	Full	Full	Full	No	No
Minnesota	No	---------- See endnote ----------				Yes	Yes
Mississippi	Yes	Full	Full	Full	Full	No	No
Missouri	No	$4,000	$6,000	$6,000	$6,000	No	Yes
Montana	No	$3,600	$3,600	$3,600	$3,600	No	Yes
Nebraska	No	None	None	None	None	N/A	N/A
New Jersey	Yes	$9,375	Full	$9,375	$9,375	Yes	No
New Mexico	No	---------- See endnote ----------				Yes	Yes
New York	Yes	$20,000	Full	Full	Full	Yes	No
North Carolina	Yes	$2,000	Full/$4,000	Full/$4,000	Full/$4,000	No	No
North Dakota	No	None	$5,000	$5,000	$5,000/ None	Yes	No
Ohio	Yes	---------- See endnote ----------					
Oklahoma	Yes	$4,400	$5,500	$5,500	$5,500	Yes	Yes
Oregon	Yes	---------- See endnote ----------					

Table 2
State Income Tax Treatment of Social Security Benefits and Pension Income, 2000 (single filers)

State	Is Social Security Tax Exempt?	Private Exemption	Military Exemption	Federal Exemption	State and Local Exemption	Age Minimum for Pension Exclusions?	Income Restrictions for Pension Exclusions?
Pennsylvania	Yes	Full	Full	Full	Full	See endnote	No
Rhode Island	No	None	None	None	None	N/A	N/A
South Carolina	Yes	$3,000/ $10,000	$3,000/ $10,000	$3,000/ $10,000	$3,000/ $10,000	No	No
Utah	No	$4,800/$7,500	$4,800/$7,500	$4,800/$7,500	$4,800/$7,500	No	Yes
Vermont	No	None	None	None	None	N/A	N/A
Virginia	Yes	---------- See endnote ----------					
West Virginia	No	None	$2,000	$2,000	Full/$2,000	No	No
Wisconsin	No	None	None/Full	None/Full	None/Full	No	No

Note #1: N/A stands for not applicable.

Note #2: Seven states--Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming--are excluded because they have no personal income ta

Note #3: Two states--New Hampshire and Tennessee--are excluded because they have limited income taxes.

Sources (for Table and accompanying endnotes): State income tax forms and telephone survey of state revenue offices.

ENDNOTES TO TABLE 2

Alabama--Private defined benefit pensions are tax-exempt. All out-of-state government pensions are tax-exempt if they are defined benefit plans.

Arizona--All out-of-state government pensions are fully taxed.

Arkansas--The total exemption from all pension plans cannot exceed $6,000 per taxpayer. The exemption refers to income from public or private retirement systems, plans or programs. Distributions from Simplified Employee Pension (SEP) plans do not qualify. However, IRA distributions can be included as part of the $6,000 exemption if a taxpayer is age 59 ½ or older. All out-of-state government pensions also qualify for the $6,000 exemption.

Persons age 65 or older who do not qualify for the $6,000 deduction qualify for a $20 tax credit per taxpayer.

California--All out-of-state government pensions are fully taxed.

Colorado--Pensioners ages 55 to 64 qualify for a $20,000 pension and annuity exemption; pensioners age 65 or older qualify for a $24,000 pension and annuity exemption. The exemptions pertain to periodic payments received as a results of personal services performed prior to retirement, contributions to retirement plans that were tax-deferred, lump-sum distributions from pension or profit-sharing plans, IRA distributions, self-employed retirement account distributions, annuities, and federally taxable Social Security benefits. All out-of-state government pensions qualify for the pension exemptions.

Connecticut--All out-of-state government pensions are fully taxed.

Delaware--Persons under age 60 receive a $2,000 pension exemption; persons age 60 or older receive a $12,500 retirement exemption. The $12,500 retirement exemption covers qualified retirement plans (such as IRA distributions, 401(k) plans, Keogh plans, and government deferred compensation [section 457] plans). In addition, the exemption covers dividends, capital gains, interest, and net rental income from real property. The total exemption from all retirement plans cannot exceed the $2,000 or $12,500 limit. Out-of-state government pensions qualify for the pension and retirement exemptions.

District of Columbia--Taxpayers age 62 or older qualify for the $3,000 exemption. The exemption covers military retired pay, annuity income, or survivor benefits from the District of Columbia government or the federal civil service. All state government pensions are fully taxed.

Georgia--Taxpayers who are age 62 or older or are totally disabled can claim retirement income exemptions (including pension income, IRA distributions, interest, dividends, alimony, and capital gains) for a maximum exemption of $13,500 per taxpayer. Taxpayers can exempt up to $4,000 of earned income towards the $13,500 exemption. All out-of-state government pensions are eligible for the $13,500 exemption. The maximum exemption increased to $14,000 in 2001.

Hawaii--Private defined benefit pensions are exempt as are other employer-funded plans, such as profit-sharing and defined contribution plans. Private pensions featuring employee contributions are partially taxable: only earnings attributable to employee contributions are taxable. Public pension income or annuities are exempt. All out-of-state government pensions are tax-exempt.

Idaho--Pensioners must be age 65 or older, or age 62 or older and disabled, to qualify for the public pension exemption. Public pension exemption amounts are $17,196 (single filers) and $25,794 (married, filing jointly). These amounts are adjusted annually according to the maximum worker's retirement benefit under Social Security.

The exemption amounts are reduced by the amount of Social Security and Railroad

Retirement benefits received. Allowable state/local pension exemptions are pensions from a city's police retirement fund or from the state's retirement fund for fire fighters. Out-of-state government pensions are fully taxed.

Illinois--Exempt pension/retirement income includes qualified employee benefit plans, simplified employee pension (SEP) plans, IRA distributions, 401(k) plans, government retirement or government disability plans, Railroad Retirement income, lump-sum distributions of appreciated employer securities, and early distributions from qualified plans and IRAs. All out-of-state government pensions are tax-exempt.

Indiana--Federal civil service pensioners must be age 62 or older to claim the $2,000 pension exemption, and it is offset by Social Security and Railroad Retirement benefits received. Military pensioners must be age 60 or older to claim the exemption. Out-of-state pensions are fully taxed.

Iowa--Taxpayers age 55 or older can claim an exemption of $5,000 (single filers) or $10,000 (married, filing jointly) from pensions, annuities, simplified employee pension (SEP) plans, and IRA distributions. Out-of-state government pensions qualify for the exemptions.

Kansas--Exempt public pension income includes federal civil service and military pensions, Kansas government pensions, and lump-sum distributions from the Kansas Public Employee's Retirement System (KPERS). All out-of-state government pensions are fully taxed.

Kentucky--Kentucky state, local, and federal employees retiring before January 1, 1998, receive a full exemption of their public pensions. Those retiring after January 1, 1998, receive an exemption of their public pension based on the amount of the individual's service time prior to January 1, 1998, compared to their total service time. Public pensioners are eligible for at least a $36,414 exemption. Out-of-state government pensions are also eligible for the $36,414 exemption.

Exempt public pensions are federal, Kentucky state and local pensions, Railroad Retirement benefits, and disability pension income. Exempt private pension income includes defined benefit pensions, IRA distributions, 401(k) distributions, annuities, and disability retirement income.

Louisiana--Taxpayers must be age 65 or older to qualify for the $6,000 (single filers) or $12,000 (married, filing jointly with both spouses age 65 or older) private pension/retirement exemption. The private retirement exemption pertains to pensions and annuity income. Out-of-state government pensions qualify for the private pension/retirement exemption.

Maine -- The $6,000 exemption is reduced by taxable and nontaxable Social Security and Railroad Retirement benefits received. Eligible qualified pension plans that are covered by the exemption include those under Internal Revenue Code section 401(a) (including Savings Incentive Match Plan for Employees [SIMPLE] plans), section 403 (annuities), and section 457(b) (state and local government/tax-exempt organizations/eligible deferred compensation plans). Distributions from an IRA (including SIMPLE retirement accounts), a simplified employee pension (SEP) plan, and benefits from ineligible deferred compensation plans *do not* qualify for the exemption. Out-of-state government pensions are eligible for the $6,000 exemption.

Maryland--Pensioners must be age 65 or older and/or totally disabled to qualify for up to a $16,500 exemption, which is reduced by Social Security and Federal Railroad Retirement benefits. Exempt income includes pensions, annuities, or endowment income from an employee retirement system (not including IRA distributions, Keogh plans, or deferred compensation plans). The exemption amount changes annually according to the maximum benefit received under the Social Security Act.

Out-of-state government pensions do qualify for the $16,500 exemption.

Military pensioners are eligible for an additional pension exemption of up to $2,500. To qualify, a pensioner must be age 55 or older, must have been an enlisted member of the military at retirement, and must have a federal adjusted gross income of $22,500 or less.

Massachusetts--Pension income from other state or local governments that do not tax pension income from Massachusetts public employees is exempt from Massachusetts' taxable income. Other states or local governments must have a specific deduction, exclusion or exemption for pension income that applies to Massachusetts state or local contributory public pension plans or have no income tax.

Michigan--Private pension income is exempt up to $34,920 (single filers) or $69,840 (married, filing jointly). These maximum allowable exemptions for private pensions are reduced by the amount of any public pension deduction claimed.

Examples of exempt income are pension plans that define eligibility for retirement and set contribution and benefit amounts in advance, qualified retirement plans for the self-employed, IRA distributions (received after age 59 1/2), and qualified life annuities for taxpayers age 65 or older. Taxpayers age 65 or older may deduct interest, dividends, and capital gains up to $7,785 (single filers) or $15,570 (married, filing jointly). These deductions are reduced by any pension exemption taken.

Michigan has reciprocal agreements with other states. That is, if another state does not tax out-of-state government pensions of former Michigan state or local government employees who are now citizens of the other state, then Michigan will not tax Michigan residents who receive public pensions from those other states. Otherwise, out-of-state government pensions qualify for the same exemptions as private pensions.

Minnesota--Taxpayers age 65 or older or permanently disabled (that are receiving federal disability income) who qualify can exempt from *any* income source (including taxable Social Security benefits) $9,600 (single filers) or $12,000 (married, filing jointly) less the following: nontaxable Social Security benefits, Railroad Retirement benefits, nontaxable veterans' pensions, and one-half of federal adjusted gross income (AGI) of more than $14,500 (single filers or married, filing jointly if one spouse is under age 65 and one is age 65 or older) or $18,000 (married, filing jointly if both spouses are age 65 or older).

To qualify for the above exemptions, the AGI of single filers must be less than $33,700, and Railroad Retirement benefits and nontaxable Social Security benefits must be less than $9,600. For married taxpayers filing jointly (in which both spouses are age 65 or older or disabled), the AGI must be less than $42,000, and Railroad Retirement benefits and nontaxable Social Security benefits must be less than $12,000.

Mississippi--Retirement income that qualifies for the exemption includes income from public pensions, annuities, and deferred compensation plans. Out-of-state government pensions are tax-exempt.

Missouri--Taxpayers qualify for the $6,000 (public) or $4,000 (private) exemptions if their Missouri adjusted gross income (not including federal taxable Social Security benefits) is less than $25,000 per year (single filers) or $32,000 (married, filing jointly). Exemptions are phased out for taxpayers whose income is greater than $31,000 (single filers) or $44,000 (married, filing jointly, assuming both spouses are receiving pensions). Out-of-state government pensions qualify for the $6,000 exemption.

Taxpayers cannot receive more than a combined exemption of $6,000 from both private and public pension income.

Montana--The $3,600 exemption pertains to qualified pensions, annuities, Keogh plans, Simplified Employee Pension (SEP) plans,

deferred compensation, and IRA distributions. The exemption does not include premature distributions. Taxpayers cannot receive more than a combined exemption of $3,600 from pension and annuity income. Out-of-state government pensions qualify for the $3,600 exemption.

The $3,600 exemption is reduced by $2 for every $1 that the federal AGI exceeds $30,000. The exemption is entirely phased out when income reaches $31,800 (single filers) or $33,600 (married, filing jointly, when both spouses have pension income).

Nebraska--Out-of-state government pensions are fully taxed.

New Jersey--Taxpayers must be age 62 or older or disabled as defined by the Social Security Administration to qualify for *any* of the pension exemptions. For non-military pensions, the exemption amounts are up to $9,375 (single filers) or $12,500 (married, filing jointly). The exemptions include taxable pensions, annuities, and IRA distributions. Since employee contributions to pensions or annuities have been taxed previously, they are not taxed when they are withdrawn. Out-of-state government pensions qualify for the $9,375 (single filers) or $12,500 (married, filing jointly) exemption.

Taxpayers age 62 or older who do not claim the maximum pension exclusions of $9,375 (single filers) or $12,500 (married, filing jointly) are eligible to apply the unclaimed portion of their pension exclusion to other types of income if their wages, net business profits, partnership income, and S Corporation income are $3,000 or less.

In addition, taxpayers age 62 or older who are unable to receive Social Security or Railroad Retirement benefits, but who would have been eligible for benefits had they been covered by either program, can deduct up to $3,000 (single filers) or $6,000 (married, filing jointly) in other retirement income.

New Mexico--Taxpayers age 65 or older whose income is less than $28,500 (single filers) or $51,000 (married, filing jointly) may exempt up to $8,000 from *any* income source (including Social Security benefits) depending on the level of their adjusted gross income.

New York--Taxpayers must be age 59 1/2 or older to qualify for a $20,000 exemption from private pensions, annuities, IRA distributions, Keogh plans, and disability income. Pensions from New York state and local governments, the military, and the federal civil service are tax-exempt. Out-of-state government pensions can be deducted as part of the $20,000 exemption.

North Carolina--North Carolina state and local government retirees and federal retirees who worked for five years or more (as of August 12, 1989) can receive a full pension exemption from their defined benefit public pension plan (based on the "Bailey settlement"). This benefit also applies to the state's 401(k) and 457 plans if the retiree contributed to the plan prior to August 12, 1989.

Other government retirees receive up to a $4,000 exemption per taxpayer. However, pensioners cannot claim the $4,000 exemption for the same pension income that they already claimed as a full deduction (described earlier under the "Bailey settlement"). Out-of-state government pensions also qualify for the $4,000 exemption.

Total private and public pension exemptions for retirees may not exceed $4,000 per taxpayer for those who do not qualify for the full public pension exemption. Exempt private pension income are amounts paid by an employer to a former employee under a retirement plan to provide payments after the employee leaves.

North Dakota--All public-sector pensioners must be age 50 or older to qualify for the pension exemption. Public pension exemptions are reduced by the amount of Social Security benefits received, and pensioners must file the long tax form to qualify.

Only highway patrol, city police, and city firefighters qualify to receive the $5,000 exemptions under state/local retirement pension

plans. Out-of-state government pensions are fully taxed.

Ohio--Tax credits are available for retirement income (without age restrictions) as follows:

Retirement Income	Tax Credit
$500 or less	None
More than $500 but not more than $1,500	$25
More than $1,500 but not more than $3,000	$50
More than $3,000 but not more than $5,000	$80
More than $5,000 but not more than $8,000	$130
More than $8,000	$200

To qualify for the *retirement income credit*, a taxpayer must be receiving retirement benefits, annuities, or distributions from a pension, retirement, or profit-sharing plan. The income must be retirement-related and be included in Ohio adjusted gross income. Out-of-state government pensions can be applied toward the retirement income credit.

Oklahoma -The public pension exemption covers the pensions of retirees from Oklahoma state and local governments, the military, and the federal civil service. Taxpayers age 65 or older whose adjusted gross income is $25,000 or less (single filers) or $50,000 or less (married, filing jointly) are eligible for the private pension exemption. Total public and private exemptions cannot exceed $5,500 per person. Out-of-state government pensions qualify for the $4,400 exemption of private pensions.

Oregon--Federal pensioners who worked prior to October 1, 1991, can deduct *part* or *all* of their federal pension income. Federal pensioners retiring before October 1, 1991, receive a full exemption for federal pensions. Those retiring after that date receive an exemption for their federal pension based on the amount of the individual's service time prior to October 1, 1991, compared to his or her total service time.

Taxpayers age 62 or older whose household incomes are less than $22,500 (single filers) or $45,000 (married, filing jointly) and who have not received more than $7,500 (single filers) or $15,000 (married, filing jointly) in Social Security and Tier 1 Railroad Retirement benefits are eligible for a retirement income tax credit.

This retirement income tax credit can be as much as nine percent of retirement income depending on the level of total income, Social Security benefits, and Tier 1 Railroad Retirement benefits. The credit can be applied to the following income: public and private pensions, individual retirement plans, deferred compensation plans, and employee annuity plans. Out-of-state government pensions can be applied toward the retirement income tax credit.

Pennsylvania--Taxpayers who receive retirement income from plans whose benefits would be subject to additional taxes under Internal Revenue Code sections 72 (q) or 72 (t) must be age 59 1/2 or older and terminated from employment to exempt this income. Exceptions to this age requirement apply to Internal Revenue Code sections 72 (q) (2) or 72 (t) (2). Traditional defined benefit plans have no age requirements for exempting retirement income.

Exempt retirement income includes private and public pensions, annuities, Keogh plans, Simplified Employee Pension (SEP) income, deferred compensation plans, and IRA distributions. Out-of-state government pensions are tax-exempt as long as taxpayers meet the age requirement described earlier.

Rhode Island--Out-of-state government pensions are fully taxed.

South Carolina--Retirees under the age of 65 can deduct up to $3,000 of their qualified retirement income. Retirees age 65 or older can deduct up to $10,000 of their qualified retirement income. Qualified retirement income includes all public employee retirement plans

defined in Internal Revenue Code sections 401, 403, 408, and 457 as well as IRA distributions, Keogh plans, and military retirement.

In addition to the qualified retirement exemption of $3,000 or $10,000, taxpayers age 65 or older qualify for a senior deduction of $15,000 (single filers) or $30,000 (married, filing jointly if both spouses are age 65 or older) against any taxable income. However, the senior deduction is reduced by any qualified retirement exemption taken.

Utah--Taxpayers under the age of 65 may exempt up to $4,800 in pensions, annuities, and taxable Social Security benefits. Out-of-state government pensions qualify for the $4,800 exemption. Taxpayers age 65 or older may exempt up to $7,500 on *all* income sources. Exclusions for both age groups are subject to a $1 reduction for every $2 of federal AGI (plus interest on line 8b of federal form 1040 plus any lump-sum amount on line 6 of the Utah return) in excess of $25,000 (single filers) or $32,000 (married, filing jointly).

Vermont--Out-of-state government pensions are fully taxed.

Virginia--Taxpayers 62 to 64 years old qualify for a $6,000 exemption from *any* income source, and those age 65 or older qualify for a $12,000 exemption from *any* income source.

West Virginia -- The West Virginia Teachers Retirement System, West Virginia Public Employees Retirement System, and federal pensions qualify for the $2,000 pension exemption. Retirees under the West Virginia state or local police, deputy sheriff's, or firefighter's retirement system receive a full pension exemption.

Taxpayers who are age 65 or older or are permanently disabled qualify for up to an $8,000 exemption from any income source including taxable Social Security benefits. However, the $2,000 pension exemption, the full pension exemption for public safety officials, and interest or dividends on United States or West Virginia obligations (which are already tax-exempt from federal tax but subject to state tax) count toward the $8,000 ceiling. Out-of-state government pensions qualify for the $8,000 exemption.

Starting in tax year 2001, military pensioners are eligible for an additional military retirement income exemption. The exemption will equal two percent multiplied by the number of years of active service multiplied by the first $30,000 of military retirement income.

Wisconsin--Only military, federal civil service, and certain state/municipal pensioners who retired prior to January 1, 1964, or became a member of the retirement system as of December 31, 1963, and then retired at a later date, qualify for a tax exemption on their pension income. For state and local government retirees, only certain Milwaukee City, Milwaukee County, and the Wisconsin teachers' retirement systems qualify for exemptions subject to the conditions discussed above. Out-of-state government pensions are fully taxed.

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