As the home of more than 130 military bases and the largest share of retired service members in the United States, service members - both active duty and retired - occupy a vital role in the South. Recently, amidst calls to further increase the region’s attractiveness to veterans, lawmakers have renewed examinations of existing tax structure impacts on military retirement income. Six states in the region - Alabama, Arkansas, Louisiana, Mississippi, Missouri, and West Virginia - already fully exempt service member retirement incomes. Virginia is the only state to fully tax military retirement income in the South, while Florida, Tennessee, and Texas do not levy personal income taxes. Most recently, North Carolina entirely exempted military retirement income from its personal income tax via an omnibus budget bill signed in November 2021. The measure, Senate Bill 105, allows all military retirees with at least 20 years of active duty service or who are medically retired to claim this exemption. The bill retroactively applies to January 1, 2021.
For the remaining four states in the South that do not wholly tax or exempt military retirement income, various partial exemptions are currently in place, with proposed reforms filed for consideration during the 2022 session.

- **Georgia** allows for taxpayers 62 years of age and older, or permanently disabled regardless of age, to qualify for a retirement income exemption - including military retirement earnings. Specifically, Georgians who are age 65 and older may be eligible for a $65,000 exemption, and those who are 62 to 64 years of age may qualify for an exemption up to $35,000.

- **Kentucky** allows servicemembers who retired before 1997 total exemption from retirement income taxes, but post-1997 retirees are subject to taxation on any military retirement income exceeding $31,110.

- **In Oklahoma**, military retirement income is exempt up to 75 percent, or $10,000, whichever is greater, in an amount not to exceed federal adjusted gross income.

- **South Carolina** retirees age 65 and older may be eligible to deduct up to $30,000 of military retirement income annually, or up to $17,500 if receiving both earned income and military retirement income.

Legislation aimed at addressing this issue has been introduced in all four states in 2022. **Kentucky House Bill 96 (2022)** would amend existing statutes to enshrine a retirement tax income deduction for retired veterans who move to the state upon retirement. If enacted, the veterans able to claim this new exemption would include retired active duty, reserve, and national guard members and their respective surviving spouses. Lawmakers expressly state the law’s purpose is to encourage claimants to remain residents of the state. **South Carolina House Bill 4527 (2022)**, introduced on January 11, 2022, would exempt all military retirement income from the state income tax. The only limit to this exemption would be on those who received earned income and military retirement benefits.

**Georgia House Bill 123 (2022)** would exempt any retirement income received as a benefit of any federal uniformed service from the state income tax. This more expansive definition allows uniformed veterans of the Public Health Service and National Oceanic and Atmospheric Administration also to claim the pension exemption. This exemption would expire on or before December 31, 2032, unless extended by the General Assembly. Other states in the region also are expected to study this issue. An **Oklahoma proposal (House Bill 3693)**, presently pending before the House, would increase the current veteran pension income tax rate from 75 percent to 100 percent beginning January 1, 2023. Military retirement pay from any branch of the Armed Forces of the U.S. is eligible for the complete exemption.

Meanwhile, two slightly different proposals in **Virginia** would create a state income tax exemption for military pension benefits. **House Bill 1128** would create exemptions for 2021 (up to $20,000), 2022 (up to $30,000), and 2023 and beyond - up to $40,000. The benefits exempted include any military retirement income and any benefits paid to the surviving spouse of a veteran. An alternative proposal (**Senate Bill 381**) would exempt up to $40,000 of a veteran’s retirement income but would not begin until tax year 2022. The veteran would need to be at least 55 years old and honorably discharged after active duty in the U.S. Armed Forces, a reserve component, or any state National Guard to qualify for the exemption.