



State Report Card

for military families, veterans, and retirees



FOR THE FOURTH YEAR RUNNING,

MOAA's annual State Report Card tracks state-level policies across the nation benefiting current, retired, and former servicemembers and their families. Gains since last year have enabled us to introduce a half-dozen new categories, as well as expand some returning ones. Turn the page to learn more.

Compiled by Capt. Paul Frost, USN (Ret); Karen Golden;
Lt. Col. Shane Ostrom, USAF (Ret); and Lucie Rosner

Research Tax Factors

By Vera Wilson

WHEN YOU HEAR THE WORD “TAXES,” you probably think about what Uncle Sam takes out of your paycheck every month. But your overall tax burden can vary widely depending on the state and municipality in which you live. It pays off to consider state and local taxes before you move.

Percentage-wise, federal income tax is likely the highest of any of the taxes working people pay. But states, counties, and cities can assess taxes on purchases, property, services, and even death. These assessments could affect whether you decide to set down roots in New York City or Fulton County, Ga.

No financial plan is complete without identifying and, whenever possible, quantifying your total tax bill.

Name that tax

Before you get your paycheck, payroll and income taxes have been withheld at the national and state levels.

But a myriad other taxes you pay are part of the fabric of our everyday lives. For example, if you head to the mall, you're paying a gasoline tax and maybe even a vehicle license tax to get you there, plus a sales tax on that new pair of jeans you buy. Even staying at home can cost you with a tax on the utilities you use and property taxes on the roof over your head. If you think saving or investing your money will protect it from the tax man, you're forgetting about interest income, dividend income, and capital gains taxes. Retirement won't save you, either; income from pensions, annuities, and the like can be taxed. Enough to drive

you to drink? Yes, there's a tax on alcohol, too. If death and taxes are the only certain things, so is a tax on your death if your estate is large enough.

Income taxes: the lion's share

Generally speaking, only income is taxed at the federal level, not goods and services. State income tax calculations typically use your federal taxable income as a starting point, but after that, it can get tricky. Deductions and exemptions you enjoy on your federal tax return might not apply on your state return — case in point, interest on municipal bonds.

The flip side of that is you might be able to claim a deduction on your state tax return that you can't on your federal; for example, a few states, like Illinois, exempt all or part of military income. Your state tax return will spell out all the additions and deductions you must make.

Income from investments can vary widely at the state level, as well.

For example, some states don't differentiate between ordinary income and capital gains (the latter typically is taxed at a lower federal rate), while others might tax sales of mutual funds but not individual stocks.

Seniors often receive favorable treatment regarding their state tax bills. Retirement income — military or otherwise — may be fully or partially exempt; even your capital gains may be tax-free. Local homestead exemptions may give the elderly a break on their property taxes, which is often the largest tax bill for retirees who no longer generate income from a job.

All politics is local

Just as at the national level, a state government's agenda and its priorities can affect your tax bill dramatically. States might turn to tax increases to balance their budget, a legal requirement in all states except Vermont. For example, states with unfunded pension plans might be forced to raise taxes to cover this expense. If politicians on the campaign trail promised to reduce personal income tax rates, they might fill in the gaps by denying more specific tax breaks, perhaps those that benefit you.

City and county governments, unable to tax income, typically finance their operations through property and sales taxes, but these taxing powers often are limited by the state. Jurisdictions known for good schools and beautiful parks are great places to raise your family, but you typically pay for these benefits through higher local taxes. Decisions on the state level also can put municipalities on the defensive. For example, North Carolina recently disallowed the collection of local business privilege license fees, causing cities to scramble to fill the resulting budget hole.

A few states are rich in revenue-producing resources, allowing the government to reduce taxes collected from citizens. Wyoming, for example,

has oil and mineral rights, while Florida lets tourists help pay their bills, resulting in no state income tax.

But it's not a tax, right?

It's hard to win over a constituency with more taxes, so local governments increasingly are using fees such as tolls, parking meters, and venue admission prices to supplement tax proceeds. If you need to pay for downtown parking every day, this might be an issue, so take a close look at how your hometown pays its bills.

Celebrate freedom from taxation

Many taxes are the result of spending money, which makes them particularly hard to predict unless you have a real handle on your everyday expenses, so take a bird's-eye view of your spending habits. If you live in an area with a high sales tax on luxury items, will this impact you disproportionately? If you are in your car a lot, will a high gas tax hurt your wallet? Home property taxes are of

particular concern and can vary dramatically across the country. Since they're based on your home's value, which tends to increase over time, they can escalate quickly. States like Texas tout low or no income tax but often have higher property taxes.

A good source of information for forecasting your tax bill is the local government's finance department. You also can turn to the Tax Foundation (www.taxfoundation.org), known for its annual comparison of state-by-state taxes. Check out its Tax Freedom Day by state chart, which tells you which day of the year you will have theoretically earned enough to pay your taxes; in 2014, Louisiana reached the day first, on March 30.

Your tax bill probably won't be the main reason you live in San Diego, Boston, or Tempe, Ariz., but do your research so you won't get surprised by a tax bill you can't handle.

— **Vera Wilson** is a freelance writer based in North Carolina. Her last feature article for *Military Officer* was “Consider the Costs,” March 2015.

Worksheet

Your estimated tax: _____

Income taxes:

state _____

county _____

city/town _____

Capital gains _____

Inheritance/estate _____

Sales tax _____

Gasoline tax _____

Property taxes:

state _____

county _____

city/town _____

Car _____

Utility tax _____

Alcohol tax _____

Other _____

Specific state and local taxes vary widely; this list is just a starting point.

Veteran & Retiree Benefits Criteria

Military retirement pay/survivor benefits exempt from state taxation: Some states allow military retirees to exempt a specific amount, a percentage, or full military retired pay from taxation.

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. Spouses also might be able to receive exemptions for their survivor benefits.

Most military retired pay based on service-related disabilities is exempt from federal income taxation, but there is no guarantee of state tax exemption. Consult a tax expert in your state regarding your specific situation.

● A green dot on the chart on the following page indicates retired pay or survivor benefits are 100-percent exempt — with the exception of Missouri, where 90 percent of retired pay is exempt, with the exemption increasing to 100 percent in 2016.

● Yellow indicates some exemption, even if it's so limited some would argue the state should be red.

● Red indicates no exemption.

Estate and inheritance taxes: Federal estate tax is not owed until an estate is valued over \$5.4 million. However, some states with estate taxes have much lower exemption amounts.

Inheritance taxes are assessed based on the value of what a beneficiary receives. The IRS explains the difference in an article at www.irs.com/articles/inheritance-tax-vs-estate-tax. (Note the linked article dates from 2010; in 2015, the number of states with estate taxes has increased to 15, plus the District of Columbia, while only six states tax inheritances.)

● A green dot indicates a state does not have an estate or inheritance tax.

● Red indicates the state does.

Veteran treatment courts: These programs provide services such as treatment and mentoring to veterans in the criminal justice system. According to DoD's State Liaison Office, they are "an innovative and effective means for veterans with

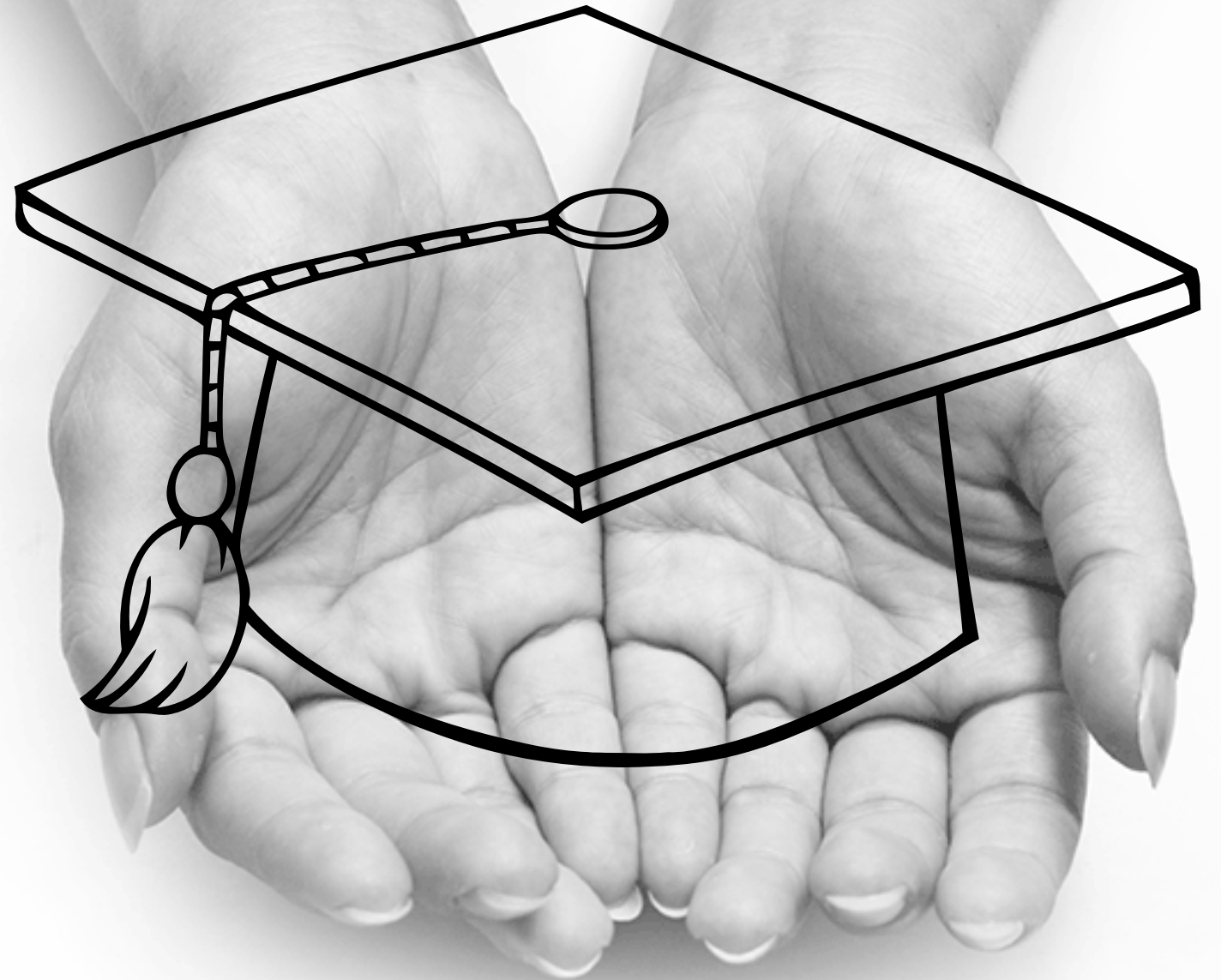
mental health and substance addiction to obtain treatment and services to resolve outstanding criminal offenses and stabilize their lives."

Learn how MOAA chapter members support veteran treatment courts in "Camaraderie With a Purpose," October 2015, and Chapters in Action, September 2014.

Veterans preference in private hiring: Most people are aware veterans receive preference when applying for federal employment. However, private-sector employers who wish to implement a veteran employment preference might be vulnerable to claims of discrimination.

Under Title VII, Section 11 of the Civil Rights Act of 1964, veteran employment preference may be authorized by state statute, which protects private employers from being sued under the act. However, at this point, nearly half the states lack a statute authorizing veterans preference.

● A green dot indicates a state offers veteran treatment courts or has a statute authorizing veterans employment preference; ● red indicates it does not.



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Military Family Benefits Criteria

Educational assistance: Federal legislation was passed last year (see “About In-State Tuition”) allowing veterans and their spouses and children using VA educational benefits to receive the in-state tuition rate at public colleges and universities.

Many states also offer some form of educational assistance to spouses and children whose military members died in the line of duty. Other states provide educational assistance to spouses and children of veterans with a VA disability rating. A limited number of states include National Guard

family members in these benefits. ● A *green* dot indicates a state offers additional educational assistance to students in the indicated category.

● A *black outline to a green* dot indicates the benefit extends to dependents of National Guard members.

● *Red* indicates a state does not offer additional educational assistance.

Military student identifier: About 1 million children in military families attend U.S. public schools, but according to the Government Accountability Office, “There is no data available on

these students that could be used to assess the academic achievement or educational outcomes, or determine where funding needs are the greatest.”

A unique military student identifier would facilitate better monitoring of their progress and yield information on the challenges they face. Learn more at www.usa4militaryfamilies.dod.mil; click on No. 9 under “10 Key Issues.”

● A *green* dot indicates a state assigns a unique identifier to military children in its educational systems; ● *Red* indicates it does not.

Medicaid waiver: Certain “exceptional family members” of servicemembers are eligible for assistance through TRICARE’s Extended Care Health Option. When their sponsor transitions out of the military, they lose that coverage. Medicaid services can help fill the gap, but families who relocate often end up at the bottom of their state’s waitlist for services.

● A *green* dot indicates a state has policies reducing barriers to servicemembers accessing Medicaid benefits for their special needs dependents; ● *red* indicates otherwise.

About In-State Tuition

The Veterans Access, Choice, and Accountability Act of 2014 included a provision granting in-state tuition rates to recent veterans at any public college or university that receives federal funding through the GI bill. The law applies to veterans enrolling within three years of discharge from a period of at least 90 days of active duty service and covers their spouses and dependent children as well as those of deceased veterans meeting certain criteria. ● It was intended to go into effect July 1, 2015. However, for a variety of reasons, some states or schools still are not in compliance with the act. ● VA Secretary Robert McDonald announced in May he would push back the deadline, giving schools more time to comply before forfeiting their GI bill funding. The new deadline for state compliance is Jan. 1, 2016.

RÉSUMÉ REVIEWS

CAREER FAIRS

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Military Family Benefits

THE POLICIES AND PROGRAMS BELOW generally benefit military family members, including families of currently serving and transitioning servicemembers and veterans and surviving children and spouses of deceased servicemembers. Visit www.usa4militaryfamilies.dod.mil to learn more about how your state can support military families.

CURRENTLY SERVING FAMILY BENEFITS

- YES/SOME RESTRICTIONS APPLY
- APPLIES TO NATIONAL GUARD
- NO/MINIMAL



Below is additional clarification of state policies regarding dependent eligibility for educational assistance. Space limitations prevent a complete description of benefits or restrictions; to learn more, consult your state's department of veterans affairs or the Office of Veterans Affairs at your public college or university.

Alabama: The GI Dependents' Scholarship program, managed by the Alabama Department of Veterans Affairs, pays 100 percent of the tuition, books, and fees for 10 semesters of attendance at any Alabama educational institution by spouses and dependents of veterans with a 20-percent or greater VA-rated disability; who were a POW or were declared missing in action; or who died while on active duty or as a result of service-connected disability. Residency criteria apply. Spouses or remarried widows of veterans rated 20 to 90 percent can receive six semesters.

Alaska: Spouse and dependents of veterans who died in the line of duty or were killed in action.

Arkansas: Spouse and children of veterans killed in action (after 1960).

California: Spouse and children of veterans who are 100-percent service-connected disabled or whose death was rated as service-connected (age/income restrictions for children). Also applies to National Guard.

Delaware: Spouses and children of veterans who were killed in action, died as a result of service-connected disability, or are 100-percent service-connected disabled (deceased or living). Restrictions apply.

Indiana: Children of disabled veterans may be eligible for tuition waivers. Restrictions apply.

Kentucky: Spouse and children of veterans who died on active duty, died as a result of service-connected disability, or are 100-percent service-connected disabled or 100-percent disabled with wartime service. Residency criteria apply.

Louisiana: Spouse and children of veterans who died on active duty, died as a result of service-connected disability, or are rated at least 90-percent service-connected disabled.

Maine: Spouses and children of veterans killed in action or who died as a result of service-connected disability or have a 100-percent service-connected disability rating (deceased or living).

Maryland: Spouses or children of veterans who died on active duty or as a result of a service-connected disability or are 100-percent service-connected disabled.

Massachusetts: Children of veterans who died while on active duty in operations Enduring Freedom or Iraqi Freedom may be eligible for tuition assistance.

Michigan: Children of Veterans Tuition Grant. Residency criteria apply.

Minnesota: Spouses and children of veterans who died or are permanently and totally disabled as a result of military service. Restrictions apply.

Nebraska: Spouse and children of veterans who were killed in action, died as a result of a service-connected disability, or have a 100-percent service-connected disability rating (deceased or living).

Nevada: Spouse and children of veterans killed in the line of duty. Children of National Guard members killed in the line of duty are eligible for in-state tuition. Residency criteria apply.

New Hampshire: Children of veterans who were killed in action or died as a result of a service-connected disability.

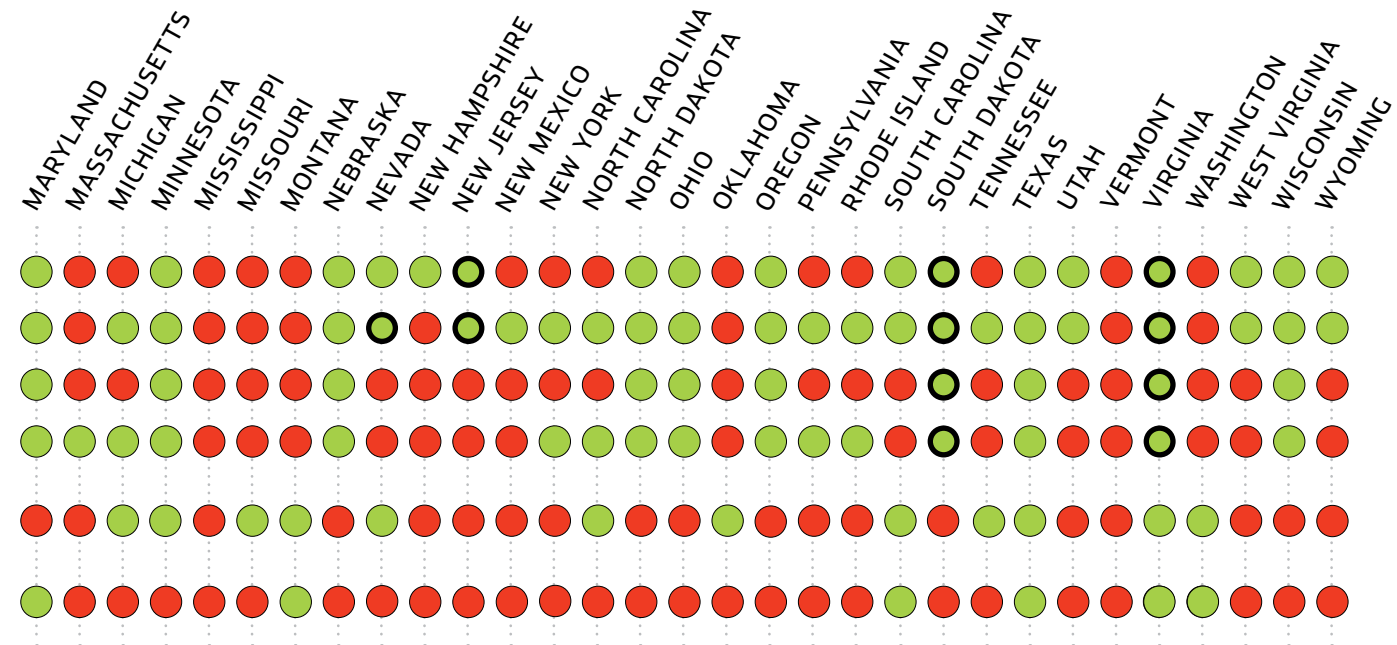
New Jersey: Spouses and children of National Guard members killed in action. Restrictions apply.

New Mexico: Children ages 16 to 26 of veterans who were killed in action or died as a result of service-connected wounds. Restrictions apply.

New York: Children of deceased or disabled veterans. Limited; restrictions apply.

North Carolina: Children of certain veterans who were deceased or disabled. Limited; restrictions apply.

North Dakota: Spouses and children of veterans who were killed in action or died from a service-related cause or was totally disabled as result of a service-connected disability. [CONTINUES ON NEXT PAGE]





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MILITARY OFFICER

Ohio: Children of veterans who are dead or severely disabled. Restrictions apply.

Oregon: Spouses or children of veterans are eligible for a full tuition waiver if the veteran died on active duty or as a result of a service-connected disability or is 100-percent service-connected disabled.

Pennsylvania: "Gratuities" (\$500 a semester) for children of veterans who died in service during a period of war or conflict or have a 100-percent permanent and total service-connected disability. Restrictions apply.

Rhode Island: "Gratuities" (\$500 a semester) for children of veterans who died in service during a period of war or conflict or have a 100-percent permanent and total service-connected disability. Restrictions apply.

South Carolina: Spouses and children of veterans who were killed in action, died as a result of a service-connected disability, or died in service.

South Dakota: Free tuition for children (under age 25) of veterans who died during service. Free tuition for children or spouse of National Guard members who died or are permanently and totally disabled because of service.

Tennessee: Dependent children (under 23) are entitled to free tuition and fees if their veteran parent was killed or died as a result of service-connected injuries.

Texas: Spouses and children of veterans who died as result of service-related injuries or are 100-percent disabled. Restrictions apply.

Utah: Surviving dependents of service-members killed in action on or after Sept. 11, 2001, are eligible for a tuition waiver at state schools.

Virginia: The Virginia Military Survivors and Dependents Program provides education benefits to spouses and children of service-members (including National Guard members) killed or at least 90-percent disabled as a result of military service in an armed conflict.

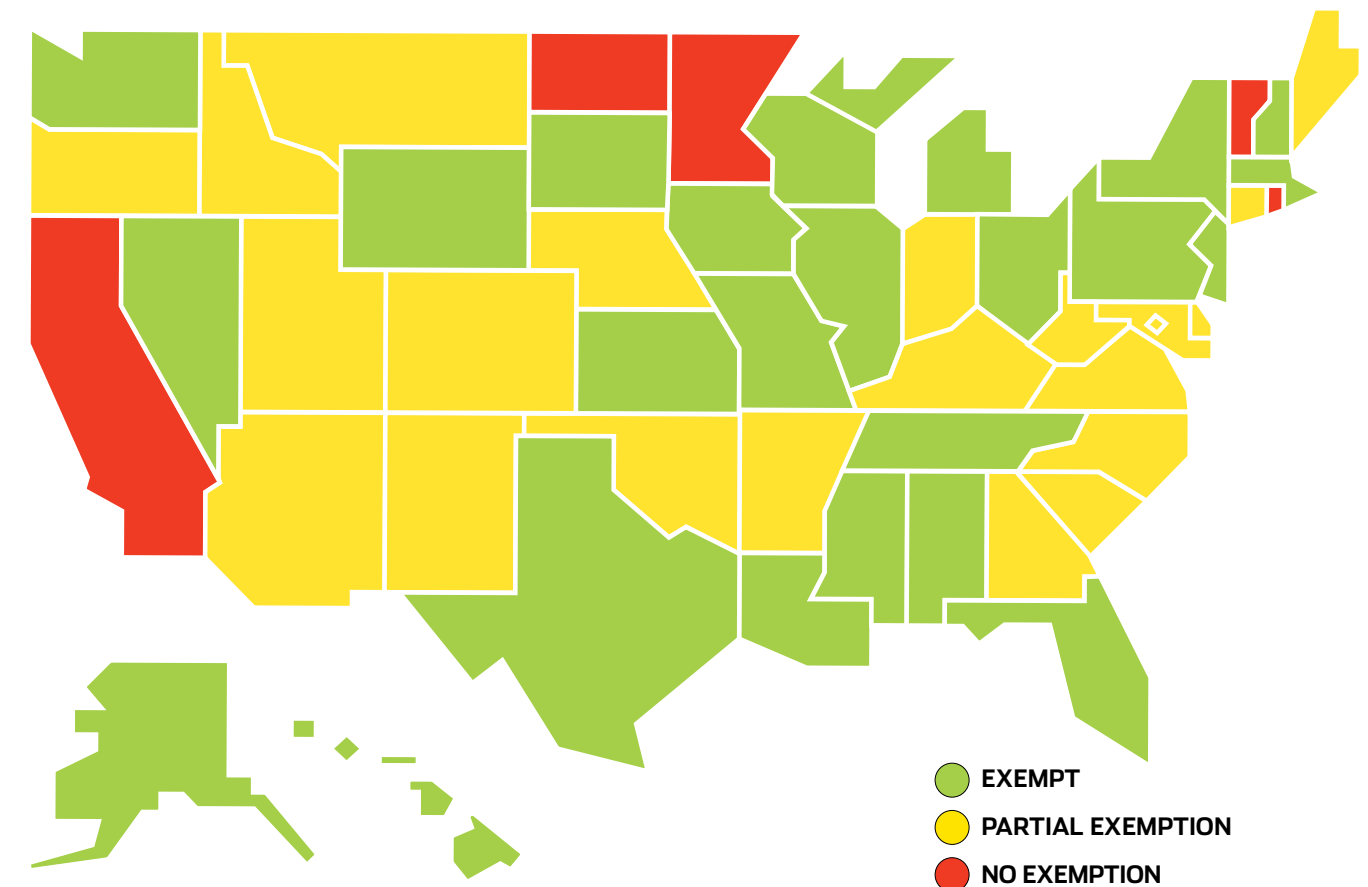
West Virginia: Spouses and children of veterans who were killed in action or died as a result of service-connected disability.

Wisconsin: GI bill also provides tuition remission benefits for the eligible spouse, unmarried surviving spouse, and children of certain deceased and disabled veterans. Restrictions apply.

Wyoming: Spouses and children of veterans who died in combat.

MOAA
State-by-State
Assessment

Taxation of Military Retired Pay



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 Tennessee and New Hampshire tax only dividend and interest income, while Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming have no state income tax.

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

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The information in this guide is, to the best of our knowledge, correct as of Oct. 1, 2015.