STATE TAXATION OF SOCIAL SECURITY AND PENSIONS IN 1996

prepared by David Baer
Public Policy Institute
American Association of Retired Persons
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Introduction

The tax treatment of pension and Social Security income is a critical concern for older Americans because these are two of their primary sources of income. In 1994, for persons age 65 and over, 42.1 percent of all income came from Social Security benefits, while another 18.7 percent came from pension income and annuities.[1]

Since 1984, a portion of Social Security and Railroad Retirement benefits has been taxable by the federal government for high-income beneficiaries. Until 1993, taxation of Social Security applied to beneficiaries if their "provisional income" exceeded $25,000 for single persons or $32,000 for married couples. Provisional income was defined as the sum of (1) federal adjusted gross income (AGI), (2) tax-free interest income, and (3) one-half of Social Security benefits. If combined income exceeded these amounts, the amount of benefits that was taxable was the lesser of:

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

(b) one-half of the Social Security benefit.

Of the 42.2 million beneficiaries receiving Social Security payments at the end of December 1993[2], about 22 percent (9.3 million), paid income taxes on their Social Security benefits.[3]

Omnibus Budget Reconciliation Act (OBRA) of 1993

Effective in tax year 1994, some Social Security beneficiaries pay even higher federal income taxes on their Social Security benefits due to a provision of the Omnibus Budget Reconciliation Act of 1993 (OBRA 93). OBRA 93 increased the percentage of benefits that may be taxed from 50 percent to 85 percent for those whose provisional incomes are $34,000 or more (single filers) and $44,000 or more (married, filing jointly).[4]

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. None of these thresholds is indexed for inflation. Approximately 12.8 percent (5.4 million) of the 42.2 million beneficiaries were required to pay higher Social Security taxes due to OBRA 93 in 1994.[5]

Many states' income taxes are directly tied to federal taxes 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 in income of

Social Security benefits, will automatically result in increased state income taxes, unless state legislatures enact provisions for offsetting the federal provision.

State Taxation of Social Security Benefits

Currently, 26 of the 41 states (and the District of Columbia) that have broad-based personal income taxes exempt Social Security benefits from taxation. The 15 states that do not 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 1.

The impact on beneficiaries due to higher state taxes on Social Security benefits varies among the 15 states that tax Social Security benefits. Wisconsin, Iowa, and Connecticut do not pass on the higher state Social Security taxes; instead, beneficiaries pay income tax on up to 50 percent of Social Security benefits based on the older thresholds of $25,000 (single) and $32,000 (married, filing jointly). In fact, beneficiaries in Iowa paying more in federal income taxes on Social Security benefits will pay less in state taxes, since federal taxes are deductible from Iowa taxable income.

In addition, Colorado and Minnesota reduce tax liability from higher federal taxation of Social Security benefits in the following ways:

Colorado allows Social Security benefits to be included in a $20,000 elderly income exemption; and

Minnesota exempts up to $800 (for single filers or for married couples filing jointly in which only one spouse qualifies) and $1,000 (for married couples, filing jointly) in higher Social Security benefits included in federal adjusted gross income due to OBRA 93. These exemptions are reduced by 20 percent for each $1,000 of adjusted gross income above $60,000 (for single filers, or for married couples filing jointly in which only one spouse qualifies) and above $75,000 (for married couples, filing jointly where both spouses qualify). These exemptions expire after tax year 1996.

As in Iowa, beneficiaries in Montana paying more in federal income taxes on Social Security benefits will pay less in state taxes, since federal taxes can be deducted if taxpayers itemize. Some beneficiaries in Montana also get an exclusion from Social Security benefits based on differences between the federal and Montana tax bases.

Supreme Court Cases

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 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.[6]

An issue not addressed by the Davis decision was whether states affected by the Davis decision must give refunds to those federal retirees who paid taxes under laws struck down by the Davis 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 states would have to "provide relief consistent with federal due process principles" if state predeprivation procedures were unavailable.

Predeprivation procedures are any methods which state governments provide taxpayers for contesting a tax before its payment. This relief could involve refunds. States with adequate predeprivation procedures may not have to take remedial action. State courts will first decide whether predeprivation procedures exist and whether these procedures provided federal retirees with opportunities to contest the tax. All affected states have settled with or are paying affected federal retirees.

State Taxation of Pensions

Table 1 summarizes the income tax treatment of pension income for tax year 1996 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.

The income restrictions column reveals only whether or not pensioners' incomes preclude them from receiving any exemption benefit; it does not indicate whether exemption amounts are reduced based on income levels. The endnotes to Table 1 give more detail about other retirement income exclusions (e.g., exclusions based on all retirement income, not just pension income), other filing statuses, age and income restrictions (both for pension income and other retirement income), and elderly tax credits.

Most states that have 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) are often treated differently for tax purposes.

Only four states -- Hawaii, Illinois, Mississippi, and Pennsylvania -- exempt all pensions, both private and public, from taxation. Hawaii exempts noncontributory private pension income. However, Hawaii taxes earnings and exempts employee contributions to contributory private pension plans.

Six states fully exempt public pensions (federal, military, state, and local pensions) but do not fully exempt private pensions. These states are Alabama, Kansas, Kentucky, Louisiana, Michigan, and New York. Alabama fully exempts public pensions, but exempts only those private pensions that are defined benefit plans.

Wisconsin fully exempts public pensions only for taxpayers who retired prior to 1964 or who became members of the retirement system before 1964. Massachusetts exempts federal, state, and local pensions but not military pensions.[7]

Sixteen states and the District of Columbia offer pension exemptions that vary by type, with public pensions generally treated more favorably than private.[8]

Some states offer at least partial exemptions for some types of pensions. Seven states specifically offer the same partial exemptions for all pensions. These are Arkansas, Colorado, Delaware, Montana, New Jersey, South Carolina, and Utah. Georgia, Iowa, Minnesota, New Mexico, and Virginia do not provide exemptions just for pension income but for income from any source, including pension income. Utah exempts $4,800 in pension income and taxable Social Security benefits (for those under the age of 65); Utah exempts up to $7,500 on all income sources for those age 65 and over.

The following eight states allow no exemptions for pension and/or other retirement income that is counted in federal adjusted gross income: California, Connecticut, Maine, Nebraska, Ohio, Oregon, Rhode Island, and Vermont. However, except for Connecticut, the other states offer some type of tax credit specifically for taxpayers age 65 and older.

Oregon, however, offers a retirement income tax credit for taxpayers age 60 and over whose household income is less than

$45,000 (married, filing jointly) or $22,500 (other filing statuses) as well as an elderly tax credit equal to 40 percent of the federal elderly tax credit. Oregon residents can apply for only one of these credits.

Age Limitations

Of the 32 states and the District of Columbia offering exemptions for pension income and/or for any other retirement income source, 14 states and the District of Columbia require pensioners to be a certain minimum age (varying from 55 to 65) to receive a tax exemption.[9]

Income Limitations

Exemption amounts for pension and/or other retirement income for seven of the states (Delaware, Maryland, Minnesota, Missouri, Montana, New Mexico, and Utah) are based on taxpayer income. Pension exemptions and exemptions from any income source are reduced by Social Security benefits and/or Railroad Retirement benefits in Idaho, Indiana (only for federal civil service pensioners), Maryland, Minnesota, and North Dakota.

State pensions are usually not tax-exempt if earned in another state. The policies are described in the endnotes to Table 1.

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

The revenue loss to New York from the new federal law is estimated at $10 million per year.[10] California estimated its revenue loss at $25 million per year.[11] Although states like New York and California will lose tax revenues from this law, some states will benefit. States that have offered their residents credit for income taxes paid to states that previously taxed the retirement income of former state residents will realize increased tax revenue.

Vermont, Massachusetts, Minnesota, and Wisconsin still tax nonqualified plans and various forms of compensation of former state residents still allowed under the new federal law. Other states might also decide to tax former residents if it is cost effective for them to do this.

Former residents who earn taxable nonqualified pension income must file non-resident income tax forms. In most states where the state of residence also has 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 averaging of income for tax purposes.

How States Treated IRAs in 1996

Three states (Pennsylvania, New Jersey, and Massachusetts) do not allow IRA contributions to be deducted from taxable income. Unlike New Jersey and Massachusetts, however, Pennsylvania does not tax IRA earnings of taxpayers age 59 1/2 years and older for whom such earnings are treated like pension income which is tax exempt.

Delaware allows deductions for contributions for joint and single filers; however, if a couple files their federal return jointly and their Delaware return separately, an adjustment may be necessary. In particular, if the federal adjusted gross income is less than $10,000, the allowable deduction is to be prorated, while no deduction is allowed when the federal adjusted gross income exceeds $10,000.

For 1981 through 1986, Georgia and California did not conform to federal eligibility and deduction rules but followed federal rules that had existed from 1975-81. 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] Social Security Administration, Office of Research and Statistics, Income of the Population 55 or Older, 1994, (Washington, DC: U.S. Government Printing Office, January 1996), p. 111.

[2] Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, 1994 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, (Washington, DC: U.S. Government Printing Office, 1994), p. 2.

[3] U.S. House of Representatives, Committee on Ways and Means, 1993 Green Book. (Washington, DC: U.S. Government Printing Office, 1993), p. 32.

[4] Provisional income includes adjusted gross income plus tax-exempt interest plus certain foreign-source income and one-half of the taxpayer's Social Security or Railroad Retirement Tier 1 benefit. (U.S. House Committee on the Budget, Omnibus Budget Reconciliation Act of 1993, 103rd Cong., 1st sess., 1993, Conference Report 103-213, p. 594.)

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

[6] Courts held that the Barker v. Kansas (503 U.S. 594) case did not apply to Massachusetts, since the state's system of taxing pensions, i.e., exempting contributory pensions and taxing noncontributory pensions, is different from Kansas's tax system.

[7] The 1992 U.S. Supreme Court case Barker v. Kansas (503 U.S. 594) ruled that the state are prohibited from taxing the pension benefits of U.S. military retirees while exempting the pensions of state and local government retirees. Courts held that this case did not apply to Massachusetts, since the state's system of taxing pensions, i.e., exempting contributory pensions and taxing noncontributory pensions, is different from Kansas's tax system.

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

[9] These states are Colorado, Georgia, Idaho, Indiana, Iowa, Louisiana, Maryland, Minnesota, New Jersey, New Mexico,

New York, North Dakota, Pennsylvania, and Virginia.

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

[11] California Franchise Tax Board.

Table 1
State Income Tax Treatment of Social Security Benefits and Pension Income, 1996

State	Is Social Security Tax Exempt?	Private Exemption	Military Exemption	Federal Exemption	State and Local Exemption	Age Minimum for Pension Exclusions?	Income Qualifying Restrictions for Pension Exclusions?
		Amount of Exemptions					
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	$20,000	$20,000	$20,000	$20,000	Yes	No
Connecticut	No	None	None	None	None	N/A	N/A
Delaware	Yes	$2,000/ $3,000	$2,000/ $3,000	$2,000/ $3,000	$2,000/ $3,000	No	Yes
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	$14,976	$14,976	$14,976/ None	Yes	No
Illinois	Yes	Full	Full	Full	Full	No	No
Indiana	Yes	None	$2,000	$2,000	None	Yes	No
Iowa	No	$3,000	$3,000	$3,000	$3,000	Yes	No
Kansas	No	None	Full	Full	Full	No	No
Kentucky	Yes	See endnote	Full	Full	Full	No	No
Louisiana	Yes	$6,000	Full	Full	Full	Yes	No
Maine	Yes	None	None	None	None	N/A	N/A
Maryland	Yes	$14,400	$14,400	$14,400	$14,400	Yes	Yes

Table 1
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State	Is Social Security Tax Exempt?	Private Exemption	Military Exemption	Federal Exemption	State and Local Exemption	Age Minimum for Pension Exclusions?	Income Qualifying Restrictions for Pension Exclusions?
		Amount of Exemptions					
Massachusetts	Yes	None	None	Full	Full	No	No
Michigan	Yes	$31,920	Full	Full	Full	No	No
Minnesota	No	--- See endnote -------------------------------------				Yes	Yes
Mississippi	Yes	Full	Full	Full	Full	No	No
Missouri	No	None	$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	$7,500	$7,500	$7,500	$7,500	Yes	No
New Mexico	No	--- See endnote -------------------------------------				Yes	Yes
New York	Yes	$20,000	Full	Full	Full	Yes	No
North Carolina	Yes	$2,000	$4,000	$4,000	$4,000	No	No
North Dakota	No	None	$5,000	$5,000	$5,000/ None	Yes	No
Ohio	Yes	--- See endnote -------------------------------------					
Oklahoma	Yes	None	$5,500	$5,500	$5,500	No	No
Oregon	Yes	--- See endnote -------------------------------------					
Pennsylvania	Yes	Full	Full	Full	Full	Yes	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	--- See endnote -------------------------------------				No	Yes

Table 1
State Income Tax Treatment of Social Security Benefits and Pension Income, 1996

		Amount of Exemptions					
State	Is Social Security Tax Exempt?	Private Exemption	Military Exemption	Federal Exemption	State and Local Exemption	Age Minimum for Pension Exclusions?	Income Qualifying Restrictions for Pension Exclusions?
Vermont	No	None	None	None	None	N/A	N/A
Virginia	Yes	-- See endnote ---------------------------------------				Yes	No
West Virginia	No	-- See endnote ---					
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 tax.

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

Sources (for Table 1 and accompanying endnotes): State income tax forms and telephone survey of State Department of Revenue offices.

ENDNOTES TO TABLE 1

Alabama - Private defined benefit pensions are tax exempt. All out-of-state pensions are taxed the same as in-state pensions.

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

Arkansas - The total exemption from all pension plans cannot exceed $6,000 per taxpayer. The exemption refers to income from an employer-sponsored pension plan. With annuities and 401k plans, the portion that employers pay is taxable, while the portion the employees pay can be applied to the $6,000 exemption. Persons age 65 and over who do not claim the $6,000 deduction qualify for a $20 tax credit per taxpayer. A surviving spouse qualifies for the pension exemption. All out-of-state pensions are taxed the same as in-state pensions.

California - A senior head-of-household tax credit is available to taxpayers age 65 and over who meet the following qualifications: 1) did not have adjusted gross income over $43,687 for 1996; and 2) qualified as a head of household in 1994 or 1995 by providing a household for a qualifying individual who died during 1994 or 1995. The credit equals two percent of California taxable income up to $823. All out-of-state pensions are fully taxed.

Colorado - Pensioners must be age 55 and over to claim the $20,000 pension and annuity exemption. The $20,000 exemption affects qualified retirement income and includes qualified pensions, qualified annuities, Individual Retirement Account (IRA) distributions, Keogh plans, and Social Security benefits. All out-of-state pensions are taxed the same as in-state pensions.

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

Delaware - Persons under age 60 receive a $2,000 pension exemption; persons age 60 and over receive a $3,000 pension exemption. The pension exemption covers pensions from employers. The total exemption from all retirement plans cannot exceed the $2,000 or $3,000 exemption.

Single taxpayers or married taxpayers filing separately who are 60 and over with an earned income of less than $2,500 and a Delaware adjusted gross income (AGI) of $10,000 or less are eligible to receive an additional $2,000 exemption.

Married taxpayers filing jointly, who are age 60 and over with an earned income of less than $5,000 and a Delaware AGI of $20,000 or less, are eligible to receive an additional $4,000 exemption. All out-of-state pensions are taxed the same as in-state pensions.

District of Columbia - Pensioners must be age 62 and over to qualify for the $3,000 exemption. All out-of-state pensions are fully taxed.

Georgia - Taxpayers age 62 and over or totally disabled can claim an income exemption, which includes all unearned income, such as pension income, annuities, interest, dividends, and capital gains, and the first $4,000 of earned income for a maximum exemption of $12,000 per taxpayer.

With married couples filing jointly, each

spouse can exempt up to $12,000. All out-of-state pensions are taxed the same as in-state pensions.

Hawaii - Noncontributory private pension plans are tax exempt. With contributory private pension plans, earnings are taxed, while employee contributions are tax exempt. The private pension exclusion pertains to employer-funded pension plans. This includes profit-sharing, defined contribution, and defined benefit plans. All out-of-state pensions are taxed the same as in-state pensions.

Idaho - Pensioners must be age 65 and over or age 62 to 65 and disabled to qualify for the public pension exemption. Public pension exemption amounts are $14,976 (single filers) and $22,464 (married, filing jointly). These amounts are adjusted annually according to the maximum benefit under Social Security.

The exemption amounts are reduced by Social Security and Railroad Retirement benefits received. Allowable state/local pension exemptions include pensions from a city's police retirement fund or from the state's retirement fund for fire fighters. All out-of-state pensions are fully taxed.

Illinois - Exempt pension/retirement income includes government retirement or disability plans, qualified employee benefit plans (as defined in Section 402 through 408 or 457 of the Internal Revenue Code), Social Security benefits, IRA distributions, redemptions of U.S. retirement bonds, Railroad Retirement income, qualified annuities, and Keogh plans. All out-of state pensions are taxed the same as in-state pensions.

Indiana - Federal civil service pensioners must be 62 and over to claim the $2,000 pension exemption. The amount federal civil service pensioners may exempt is offset by Social Security and Railroad Retirement benefits received. Military pensioners must be 60 and over to claim the exemption. Limited tax credits are available to persons 65 and over. All out-of-state pensions are fully taxed.

Iowa - Taxpayers age 55 and over can claim an exemption of $3,000 (single filers) or $6,000 (married, filing jointly) from retirement plans including pension income. All out-of-state pensions are fully taxed.

Kansas - All out-of-state pensions are fully taxed.

Kentucky - Public pension income is fully tax-exempt, while private pension income is exempt on 50 percent of the pension income, not to exceed $12,500 for tax year 1996. Exempt private pension income includes private employer pension plans, IRA distributions, annuity income, and profit-sharing plan income.

Private pension exemptions will increase to 75 percent of pension income, not to exceed $18,750 in tax year 1997 and $35,000 in tax year 1998. For tax year 1999 and thereafter, the $35,000 exemption will be adjusted for inflation by the Consumer Price Index (CPI).

State, local, and federal employees retiring before January 1, 1998, will receive a full exemption of their public pensions. Those retiring after January 1, 1998, will 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. All out-of-state pensions are fully taxed. At a minimum, public-sector retirees will be eligible for the same pension exemption as private-sector retirees.

Louisiana - Taxpayers must be 65 and over to qualify for the $6,000 (single filers) or $12,000 (married, filing jointly) private

pension/retirement exemption. The private retirement exemption pertains to taxable IRA distributions, pension, and annuity income reported on lines 15b and 16b on federal Form 1040. Out-of-state pensions are fully taxed like in-state private pensions.

Maine - Taxpayers qualifying for the federal elderly tax credit may claim 20 percent of the federal credit as a Maine tax credit. All out-of-state pensions are fully taxed.

Maryland - Pensioners must be 65 and over and/or totally disabled to qualify for up to a $14,400 exemption that is reduced by Social Security and Federal Railroad Retirement benefits. Exempt income is pension, annuity, 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.

Military pensioners are eligible for an additional pension exemption of up to $2,500. To qualify, a pensioner must be 55 or over and be an enlisted member of the military at retirement. The exemption amount depends on federal adjusted gross income which has to be under $22,500 to qualify. All out-of-state pensions are taxed the same as in-state pensions.

Massachusetts - Most federal and state/municipal pensions are contributory and therefore, are fully exempt, while military and most private pensions are noncontributory and therefore are fully taxed. Massachusetts does not tax pension income of Massachusetts residents receiving contributory public pensions from other states provided those states do not tax pension income (from a Massachusetts contributory public retirement plan) of former Massachusetts state employees. Out-of-state noncontributory private pensions are fully taxed.

Michigan - Private pension income is exempt up to $31,920 (single filers) and $63,840 (married, filing jointly). Examples of exempt income are qualified pension income, IRA distributions (received after age 59 1/2), Keogh plan income, and qualified annuities (which are paid for life to taxpayers age 65 or older). To qualify for the exemptions, pension plans of private pensioners must define eligibility for retirement and set contribution and benefit amounts in advance.

Taxpayers age 65 or over who do not claim a pension exemption can exempt interest and dividends up to $1,064 (singles) or $2,128 (married, filing jointly) for 1996.

For tax year 1997, taxpayers age 65 or over can exempt interest, dividends, and capital gains up to $3,500 (single filers) and $7,000 (married, filing jointly). The amount of the exemption would be reduced by the amount of any pension exemption claimed.

Michigan has reciprocal agreements with other states. That is, if another state does not tax Michigan public sector pensions (all government levels) of former Michigan employees who are now citizens of another state, then Michigan will not tax Michigan residents who receive public sector pensions from other states. All out-of-state pensions are taxed the same as in-state private pensions.

Minnesota - Although Minnesota does not specifically exempt pension income, persons age 65 and over who qualify can exempt from any income source $9,600 (single filers) or $12,000 (married, filing jointly) less

nontaxable Social Security benefits, Railroad Retirement benefits, and one-half of federal adjusted gross income (AGI) over $14,500 (single filers or married, filing jointly; one spouse is under 65 and one is 65 or over) or $18,000 (married, filing jointly; both spouses are 65 or over). Since nontaxable Social Security benefits are subtracted, those who benefit from this exemption are usually not receiving Social Security benefits, such as federal retirees.

To qualify for the above exemptions, one must meet the following economic requirements:
1) the AGI must be less than $33,700, and Railroad Retirement benefits and nontaxable Social Security benefits are less than $9,600 (single filers); 2) the AGI must be less than $42,000, and Railroad Retirement benefits and nontaxable Social Security benefits are less than $12,000 (married, filing jointly; both spouses are 65 or over); 3) the AGI must be less than $38,500, and Railroad Retirement benefits and nontaxable Social Security benefits are less than $12,000 (married, filing jointly; one spouse under 65). All out-of-state pensions are taxed the same as in-state pensions.

Mississippi - Retirement income that qualifies for the exemption includes public pension income, annuity income, IRA distributions, Keogh plan income, Simplified Employee Pension income, and deferred compensation plan income. All out-of-state pensions are taxed the same as in-state pensons.

Missouri - The $6,000 exemption for all state, federal, and military pensions is available if:
1) single filers earn less than $25,000 per year (Missouri AGI less federal taxable Social Security); or 2) married joint filers earn less than $32,000 per year (Missouri AGI less federal taxable Social Security); or 3) married separate filers earn less than $16,000 (Missouri AGI less federal taxable Social Security). All out-of-state pensions are taxed the same as in-state pensions.

Montana - The $3,600 exemption pertains to qualified pensions, annuities, Keogh plans, Simplified Employee Pension plans, deferred compensation, and IRA distributions. The exemption does not include premature distributions.

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 (assuming a retirement income of $3,600 or more). All out-of-state pensions are taxed the same as in-state pensions.

Nebraska - Taxpayers qualifying for the federal elderly tax credit may claim the federal credit as a Nebraska tax credit. All out-of-state pensions are fully taxed.

New Jersey - Taxpayers must be 62 and over or disabled under Social Security to qualify for the pension exemption. Exemption amounts are $7,500 (single filers), $10,000 (married joint filers), and $5,000 (married separate filers). Pension income includes taxable pensions, annuities, and IRA distributions. Taxable pension plans, annuity plans, and IRA distribution income does not include employer contributions, which have already been taxed.

Taxpayers age 62 or over who do not claim the maximum pension exclusion may be able to exclude other types of income, such as wages, interest, and dividends. This retirement exclusion refers to taxpayers whose earned income is $3,000 or less. These taxpayers can use the unclaimed portion of their pension exclusion to exclude other types of income.

Taxpayers age 62 or over who who do not receive Social Security or Railroad

Retirement benefits can exempt up to $3,000 (single filers or married, filing separately) or $6,000 (married joint filers) of taxable income. All out-of-state pensions are taxed the same as in-state pensions.

New Mexico - Taxpayers 65 and over may exempt up to $8,000 from any source depending on their adjusted gross income level and filing status. All out-of-state pensions are taxed the same as in-state pensions.

New York - Taxpayers must be 59 1/2 and over to qualify for a $20,000 exemption from private pensions, annuities, IRA distributions, Keogh plans, and disability income. All out-of-state pensions, except for federal pensions, are taxed the same as in-state private pensions.

North Carolina - The $2,000 private pension exemption includes income from IRA distributions, annuities, Keogh plans, and Simplified Employee Pension income. All out-of-state pensions are taxed the same as in-state pensions.

North Dakota - All public-sector pensioners must be 50 and over to qualify for the pension exemption. All public sector pension exemptions are reduced by Social Security benefits received. Pensioners must file the long form to qualify for all public sector pension exemptions. Only highway patrol, city police, and city firefighters qualify to receive the $5,000 exemptions under state/local retirement pension plans. All out-of-state 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
Over $500 but not more than $1,500	$25
Over $1,500 but not more than $3,000	$50
Over $3,000 but not more than $5,000	$80
Over $5,000 but not more than $8,000	$130
Over $8,000	$200

To qualify for the above retirement income credit, a taxpayer must have received retirement benefits, annuities, or distributions from a pension, retirement, or profit-sharing plan. In addition, a taxpayer must have received this income because of retirement reasons, and the income must be included in Ohio adjusted gross income.

A $50 senior citizen credit is available to taxpayers 65 and over; only one $50 credit is available for each return, even for married taxpayers filing jointly. All out-of-state pensions are taxed the same as in-state pensions.

Oklahoma - Starting in tax year 1997, private pensions will gradually be exempted up to $5,500 by phasing the exemption in with $1,100 increments over five years as follows: $1,100 exemption in 1997; $2,200 exemption in 1998; $3,300 exemption in 1999; $4,400 exemption in 2000; and a $5,500 exemption in 2001. Oklahoma law is specifically tied to the Oklahoma retirement systems. Therefore, all out-of-state pensions are fully taxed.

Oregon - Taxpayers 60 and over whose household income is less than $45,000 (married, filing jointly) or $22,500 (other filing statuses) and who have not received more than $7,500 ($15,000 if married, filing jointly) in Social Security and/or Tier 1 Railroad Retirement benefits are eligible for the retirement income tax credit.

This 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 pensions, employee pensions, individual retirement plans, deferred compensation plans, and employee annuity

plans. The minimum eligibility age will gradually increase each year until age 62 for tax year 1999.

Oregon also offers an elderly tax credit equal to 40 percent of the federal elderly tax credit; however, taxpayers can apply for either this credit or the retirement income tax credit, but not both. All out-of-state pensions are taxed the same as in-state pensions.

Pennsylvania - Taxpayers must be 59 1/2 or over to exempt retirement income. Exempt retirement income includes private pensions, public pensions, annuities, Keogh plans, Simplified Employee Pension income, deferred compensation plans, and IRA distributions. All out-of state pensions are fully exempt.

Rhode Island - All out-of-state pensions are fully taxed.

South Carolina - Effective tax year 1993, pension exemptions increased from $3,000 to $10,000 per retiree for pensioners 65 or over. Exempt income involves plans defined in IRC sections 401, 403, 408, and 457, public pensions plans, IRA distributions, Keogh plans, and military retirement (for persons with 20 or more years of active military duty).

Pensioners under the age of 65 who are just starting to receive retirement income in tax year 1993 or beyond can elect to take either the pre-1993 deduction of $3,000 for the rest of their lives or defer any deduction until the age of 65 (66 for people born between 1943 and 1959; 67 for people born after 1959).

If pensioners defer the deduction to age 65, they are then allowed a $10,000 annual deduction for the rest of their lives. Only one retirement benefit exemption is allowed per pensioner. All out-of-state pensions are taxed the same as in-state pensions.

Utah - Pensioners under the age of 65 may exempt up to $4,800 on pensions, annuities, and Social Security benefits (taxable on federal form). Pensioners age 65 and over may exempt up to $7,500 on all income sources. Since 1988, exclusions have been subject to a $1 reduction for every $2 of AGI in excess of $25,000 (single filers), $32,000 (married, filing jointly), and $16,000 (married, filing separately). All out-of-state pensions are taxed the same as in-state pensions.

Vermont - Taxpayers age 65 and over are eligible for an elderly tax credit equal to 25 percent of the federal elderly tax credit. All out-of-state pensions are taxed the same as in-state pensions.

Virginia - Taxpayers 62 to 64 years of age receive a $6,000 exemption from any income source, while those 65 or over receive a $12,000 exemption from any income source. Married, joint filers qualify for twice the exemption amount even if one spouse earns less than the exemption amount of $6,000 or $12,000. All out-of-state pensions are taxed the same as in-state pensions.

West Virginia - Pensioners receive up to a $2,000 pension exclusion (except for private pensioners and some small municipalities that do not participate in West Virginia's retirement system). Some public safety officials, i.e., any state or local police or firefighters, receive a full pension exemption.

Taxpayers age 65 and over or permanently disabled qualify for up to a $8,000 exemption from any income source.

However, the $2,000 pension exemption, the full pension exemption for public safety officials, and interest or dividends on U.S. obligations that are already tax-deductible count toward the $8,000 ceiling. All out-of-state pensions are fully taxed.

Wisconsin - Only military, federal, 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. However, for state and local government retirees, only certain Milwaukee city, Milwaukee county, and the Wisconsin teachers' retirement systems qualify for exemptions subject to the aforementioned conditions. In addition to the pension exemption, a $25 tax credit is offered to taxpayers 65 and over. All out-of-state pensions are fully taxed.

Written by David Baer
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AARP, 601 E Street, NW, Washington, DC 20049