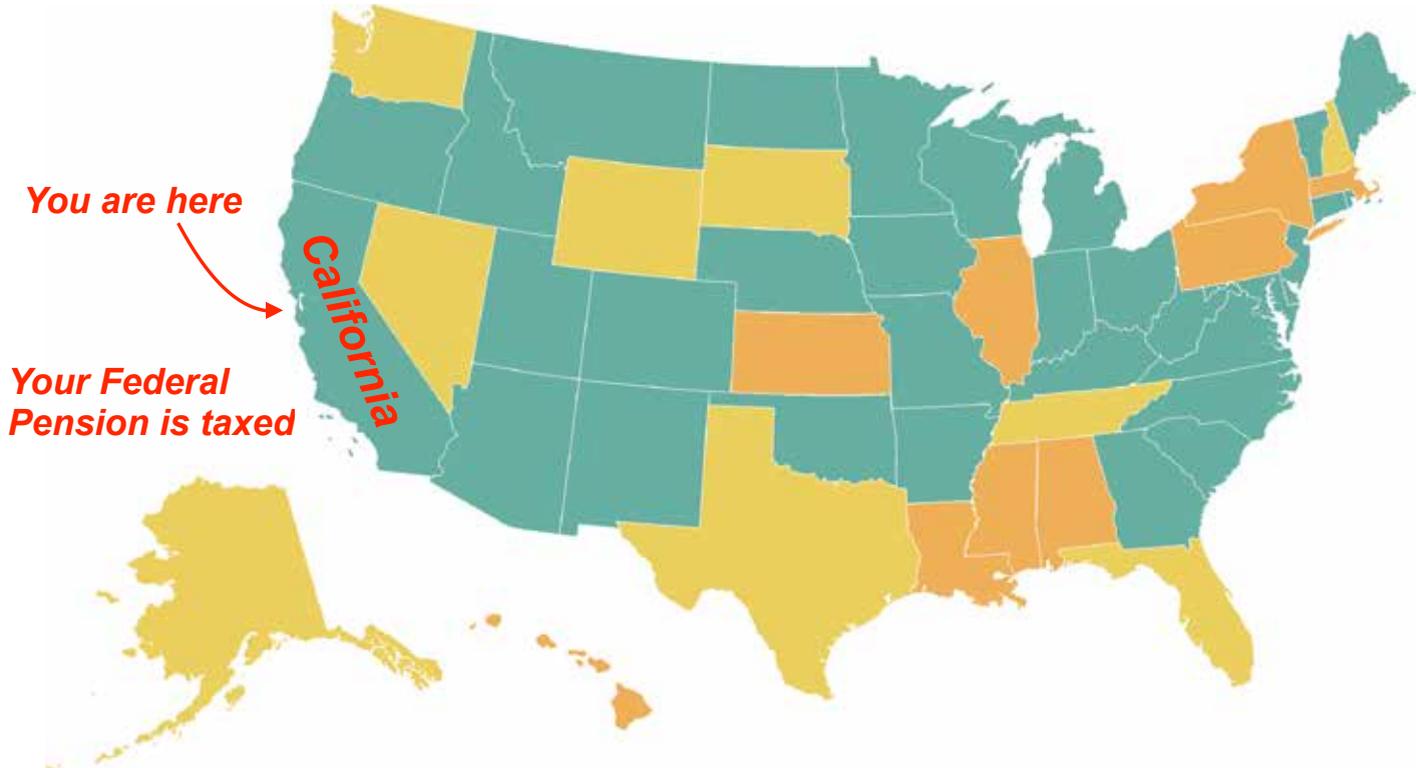


STATE TAX TREATMENT



States With No Personal Income Taxes

ALASKA
FLORIDA
NEVADA

NEW HAMPSHIRE¹
SOUTH DAKOTA
TENNESSEE²

TEXAS
WASHINGTON
WYOMING

¹New Hampshire: Taxes interest/dividend income at 5% if it exceeds \$2,400 (single) or \$4,800 (couple). \$1,200 exemption for residents age 65+.

²Tennessee: Taxes certain interest/dividend income at 6% if it exceeds \$1,250 (single) or \$2,500 (joint filer). Individuals age 65+ have additional means-based exemption (see p. 47).

States Exempting Total Amount of Civil Service Annuities*

ALABAMA
HAWAII
ILLINOIS

KANSAS
LOUISIANA
MASSACHUSETTS

MISSISSIPPI
NEW YORK
PENNSYLVANIA

* In addition, the five states listed below exempt certain federal civil service annuities from taxation. Some exemptions depend on the taxpayer's age or dates of government service.

KENTUCKY: Amount attributable to service prior to Jan. 1, 1998, is exempt. See p. 44 for taxation of annuities attributable to service on or after Jan. 1, 1998.

MICHIGAN: Full exemption only applicable to taxpayers born before 1946. See p. 44 for taxation of federal (and other) pension income for taxpayers born in 1946 and later.

NORTH CAROLINA: Annuities not taxed if the individual had five years of federal government service as of Aug. 12, 1989.

If otherwise, see p. 46.

OKLAHOMA: CSRS annuities excluded from taxation. Taxpayers with annuities with both FERS and CSRS components may exclude the portion attributable to CSRS service.

OREGON: Annuities not taxed if individual retired before Oct. 1, 1991. Those who retired after Oct. 1, 1991, are taxed only on that portion of the annuity attributable to federal government service after Oct. 1, 1991.

of FEDERAL ANNUITIES

Other Exemptions

ALABAMA: SS, federal retirement, military retirement and state pension income are exempt. Income from all defined-benefit pension plans is exempt. Income on accounts like an IRA or 401(k) will be taxed as regular income.

ARIZONA: SS is exempt. Up to \$2,500 total of military, civil service, and Arizona state and local government pensions are exempt. Additional personal exemption for all residents age 65+.

ARKANSAS: SS is exempt. Exempts up to \$6,000 in federal retirement, military, in-state and out-of-state state or local government and private pension income. IRA distributions can be included as part of the exemption if the taxpayer is age 59 1/2+. Out-of-state government pensions also qualify for the exemption.

Other Exemptions

NOTE:

AGI=Adjusted Gross Income
 CSRS=Civil Service Retirement System
 FERS=Federal Employees Retirement System
 HH=Head of Household
 IRA=Individual Retirement Account
 MFJ=Married Filing Jointly
 MFS=Married Filing Separately
 QW=Qualified Widow(er)
 RR=Railroad Retirement*
 SS=Social Security

*Federal law does not permit states to tax Railroad Retirement income. Exemption is not noted in roundup except where it affects provisions.

This roundup of state tax treatment of federal annuities and other tax information is presented for informational purposes only and does not constitute professional tax advice. NARFE has taken all reasonable efforts to ensure that the information contained in this roundup is accurate at the time of publication; however, NARFE cannot guarantee the completeness or accuracy of this information and is not responsible for any errors or omissions. Please consult a tax professional for advice in preparing tax returns. The information also is available on the NARFE website, www.narfe.org.

CALIFORNIA: SS is exempt. Additional \$114 personal exemption for residents age 65+. All private, public and military pensions are taxed.

COLORADO: \$24,000 pension/annuity exemption for all taxpayers age 65+. \$20,000 pension/annuity exemption for all taxpayers between the ages of 55 and 64. Exemption applies to SS and other qualifying retirement income (including federal civil service annuities, military retirement and all out-of-state pensions.)

CONNECTICUT: SS is exempt if federal AGI is below \$50,000 (if single) and for joint filers with AGI of \$60,000 or less. Beginning in tax year 2015, exempts 100 percent of federally taxable military retirement pay. All out-of-state government and federal civil service pensions are fully taxed.

DELAWARE: SS is exempt. Taxpayers age 60+ may exclude \$12,500 of investment and qualified pension income (including federal civilian, military and out-of-state government pensions) and qualify for an additional tax credit of \$110. Taxpayers under age 60 may exclude \$2,000. Taxpayers age 65+ are entitled to an additional standard deduction of \$2,500 (if not itemizing). Single or MFS taxpayers age 60+ as of Dec. 31,

2015, or totally disabled, may exclude \$2,000 if earned income is less than \$2,500 and AGI is \$10,000 or less. If MFJ and both spouses are age 60+ as of Dec. 31, 2015, or totally disabled, may exclude \$4,000 if earned income is less than \$5,000 and AGI is \$20,000 or less.

DISTRICT OF COLUMBIA: SS is exempt. For taxpayers age 62+, DC or federal government survivor benefits are exempt. Other retirement income is not exempt. State government and public pensions are taxed. A deduction of up to \$3,000 is provided on all income from a public pension. Extra personal exemption on income tax.

GEORGIA: SS is exempt. Taxpayers who are age 62-64, or permanently and totally disabled regardless of age, may exclude \$35,000 of retirement income. For taxpayers age 64+, the retirement income tax exclusion is \$65,000. Retirement income includes income from pensions and annuities, interest income, dividend income, net income from rental property, capital gains income and income from royalties. Up to \$4,000 of the maximum allowable exclusion may be earned income.

HAWAII: SS is exempt. Federal retirement, military retirement, state or county retirement system pension

income, and qualifying distributions from employer-funded pensions are exempt. Out-of-state government pensions are exempt. Additional personal exemption of \$1,144 per person age 65+.

IDAHO: SS is exempt. Retirement benefits deduction available for CSRS annuitants who established CSRS eligibility prior to 1984, who are age 65+, or 62+ and disabled, in the amount of \$31,668 (if single) or \$47,502 (MFJ) minus SS and RR received. Deduction expanded beginning in tax year 2015 to include workers under the Foreign Service Retirement and Disability System (FSRDS). Retirement benefits deduction also available for military retirees. Persons using MFS status are not eligible for the retirement benefits deduction. Extra standard deduction for persons age 65+.

ILLINOIS: SS and income from any qualified employee benefit plan are exempt (including federal government plans). Pension or retirement savings accounts like 401(k) plans, an IRA, or a traditional IRA that has been converted to a Roth IRA are exempt. Extra personal exemption for persons age 65+.

INDIANA: SS is exempt. Taxpayers age 60+ may exclude \$5,000 of military retirement income. Taxpayers age 62+ may deduct up to \$16,000 from a federal civil service annuity minus the total amount of any SS or RR benefits. For taxable years before January 2018, surviving spouses are eligible to claim the deduction but do not have to be 62+. Taxpayers age 65+ can take additional personal exemption of \$1,000. Additional personal exemption of \$500 if federal AGI is less than \$40,000 for residents age 65+.

IOWA: SS is exempt. Beginning in 2015, military retirement pay is exempt. Taxpayers age 55+ may exclude up to \$6,000 (if single) or \$12,000 (if MFJ) of pension or annuity income (including civil service annuities), self-employed retirement

plan income, deferred compensation, IRA benefits or other retirement plan benefit income. Additional \$40 personal exemption credit for those age 65+.

KANSAS: SS is exempt if federal AGI is \$75,000 or less. Federal, military and in-state/local pensions are exempt. Additional \$850 deduction for those age 65+ (\$700 each if MFJ or MFS).

KENTUCKY: SS is exempt. Federal civilian and military retirement annuities attributable to service prior to January 1, 1998, are excluded. Annuities attributable to service after January 1, 1998, are included as pension income, of which taxpayers may exclude up to \$41,110. An additional credit of \$40 for each individual age 65+ or blind (\$80 if both).

LOUISIANA: SS is exempt. Federal retirement annuities are exempt. In addition, persons age 65+ may exclude up to \$6,000 of annual retirement income from their taxable income, \$12,000 if MFJ.

MAINE: SS is exempt. May deduct from federal AGI \$10,000 of eligible pension income, including federal civil service annuity income. Except for military retirement pay, the \$10,000 deduction must be reduced for SS and RR benefits. Starting in 2016, all retirement benefits received under a military retirement plan that are included in a taxpayer's federal AGI are excluded from Maine taxable income. Additional standard deductions for age and blindness are: \$1,200 per individual per qualifying condition for MFS or MFJ, and \$1,550 per individual per qualifying condition for single filers and HH.

MARYLAND: SS is exempt. If age 65+ or totally disabled, you may exclude up to \$29,900 in pension income, under certain conditions. Additional \$1,000 exemption for residents age 65+ or blind. Beginning in tax year 2015, military retirement subtraction increased to \$10,000 if 65+; subtraction remains at \$5,000

for those under age 65. To qualify, must have been a member of an active or reserve component of the U.S. military, an active duty member of the commissioned corps of the Public Health Service, the National Oceanic and Atmospheric Administration, the Coast and Geodetic Survey, or a member of the Maryland National Guard, or the member's surviving spouse or ex-spouse.

MASSACHUSETTS: SS, federal civil service and military pensions are exempt. Tax reciprocity with state and local governments that do not tax pension income from Massachusetts public employees. RR benefits are exempt. Additional exemption of \$700 for individuals age 65+. State and local government pensions are exempt for reciprocating states.

MICHIGAN: SS and military pensions are exempt. Other pension and retirement benefits are taxed differently depending on the age of the taxpayer. Married couples filing a joint return should complete form 4884 based on the year of the birth of the older spouse. Taxpayers born on or before December 31, 1946, may claim a pension subtraction for all qualifying pension and retirement benefits received from public sources and may subtract qualifying private pension and retirement benefits up to \$50,509 if filing single or MFS, or \$101,019 if MFJ. SS and RR benefits are exempt. Taxpayers born between Jan. 1, 1946 and Jan. 1, 1951, are eligible for a deduction against all income (see Schedule 1, line 24 of the Michigan Pension Schedule, Form 4884.) For taxpayers born after 1952, military and RR benefits are exempt.

MINNESOTA: Certain types of military pensions or other military retirement pay may be subtracted from taxable income. To claim this subtraction, the qualifying income must be included in federal taxable income. Taxpayers 65+ may be eligible for subtraction, based on income.

MISSISSIPPI: SS and retirement income from federal, state and private retirement systems are exempt. Additional exemption of \$1,500 for residents age 65+.

MISSOURI: All military pension income is tax-free as of 2016. Taxpayers with AGI under \$85,000 (single, HH, MFS, QW) or \$100,000 (MFJ) may exempt the greater of \$6,000 or 100 percent of any federal, state or local pension income, up to a maximum of \$36,976 per taxpayer. Taxpayers with AGI exceeding the limitation may qualify for a partial exemption. Taxpayers with AGI under \$25,000 (single, HH, QW) or \$32,000 (MFJ) or \$16,000 (MFS) may exempt \$6,000 of private pension income. Taxpayers with AGI over these limits may be eligible for a partial exemption. Taxpayers age 62+ or disabled with an AGI under \$85,000 (single, HH, MFS, QW) or \$100,000 (MFJ) may exempt 100 percent of the taxable amount of SS or SS disability benefits. Taxpayers with AGI exceeding the limitation may qualify for a partial exemption.

MONTANA: Taxpayers with AGI \$33,910 or less may exclude \$4,070 of pension income; for AGI above \$33,910, the pension income exclusion is reduced \$2 for every \$1 of AGI above \$33,910. Additional exemption of \$2,330 if age 65+. Taxpayers age 65+ may exempt \$800 of interest income reported as federal AGI or \$1,600 if MFJ.

NEBRASKA: Taxpayers with AGI of \$58,000 MFJ or \$43,000 for all other returns may deduct Social Security income. Beginning in 2015, military retirees may make a one-time election within two calendar years after the date of their retirement from the military. Military retirees can choose to exclude 40 percent of their military retirement benefit income for seven consecutive taxable years or can exclude 15 percent of military retirement benefit income for all taxable years begin-

ning with the year the retiree turns 67. RR benefits are exempt.

NEW HAMPSHIRE: SS exempt. Tax applied only to interest and dividend income exceeding \$2,400 (\$4,800 for joint filers). Residents age 65+ qualify for \$1,200 exemption for taxable dividends and interest.

NEW JERSEY: SS, RR benefits and military pensions are exempt. Taxpayers age 62+ may exclude all or part of their taxable pensions, annuities and IRA withdrawals if their gross income for the entire year before subtracting any pension exclusion does not exceed \$100,000. The maximum amount excluded depends on your filing status. If MFJ, you may exclude up to \$40,000 in 2017. If you file as single, HH, or QW, you may exclude up to \$30,000 in 2017. If you are MFS, you may exclude up to

\$20,000 in 2017. Those amounts will gradually rise so that by 2020, joint filers can exclude up to \$100,000; single filers, up to \$75,000; and MFS, up to \$50,000. If ineligible for SS, entitled to deduct an additional \$3,000 (single, MFS) or \$6,000 (MFJ, HH, QW). If taxpayers can recover all civil service retirement contributions in the first three years, can use the three-year rule, in which annuities are not taxed until total employee contributions have been recovered. If not, must use the general rule method, in which a portion of annuity is excluded from taxation. Additional \$1,000 personal exemption for residents age 65+. Estate tax exemption changes increase from \$675,000 to \$2 million for estates of resident descendants dying on or after January 1, 2017.

SALT Changes Coming Soon

You may have heard about a change contained in the federal tax overhaul that impacts your ability to deduct state and local taxes (SALT) from your federal taxes. While this might not directly affect your state taxes, it's important to understand what this change could mean for you and to allow yourself time to develop a plan for the 2018 tax filing season.

The federal tax overhaul limits state and local tax deductions to no more than \$10,000 of combined income, property and sales tax payments. This will be a big change for tax filers who previously itemized because of the SALT deduction. This sets a cap for taxpayers who itemize and take the deduction, and it could potentially mean that you will have to pay more in federal taxes.

Before the tax overhaul, those living in states with higher taxes benefited the most from this deduction, with many households deducting greater than \$10,000. With this cap in place, individual households will also have to weigh the new standard deductions (\$12,000 for single filers and \$24,000 for married couples) in order to find out whether it is best to itemize or not.

Like the rest of the tax overhaul, this is set to affect the 2018 tax year, so you have some time to research and learn more. Some states have already begun to discuss possible changes to state taxes in order to mitigate the impact of this change, so make sure you're keeping up with your state legislature.

For more information, see the "Managing Money" column on p. 48.

NEW MEXICO: Taxpayers age 65+ or blind may qualify for additional exemption of \$8,000 if federal AGI is less than \$15,000 (MFS), \$18,000 (single) or \$30,000 (MFJ, HH, QW). The exemption reduces as income increases, with no exemption if income is over \$27,500 (MFS), \$36,667 (single) or \$55,000 (MFJ). If age 100+, exempt from state income tax if centenarian is single. If MFS or MFJ, both must be 100+ for total exemption, or centenarian may exempt half of community income and all of his/her separate income.

NEW YORK: SS, RR benefits and state and federal pensions, including military, are exempt. An additional pension and annuity income exclusion of up to \$20,000 is available to persons age 59-1/2+. Out-of-state government pensions can be deducted as part of a \$20,000 exemption.

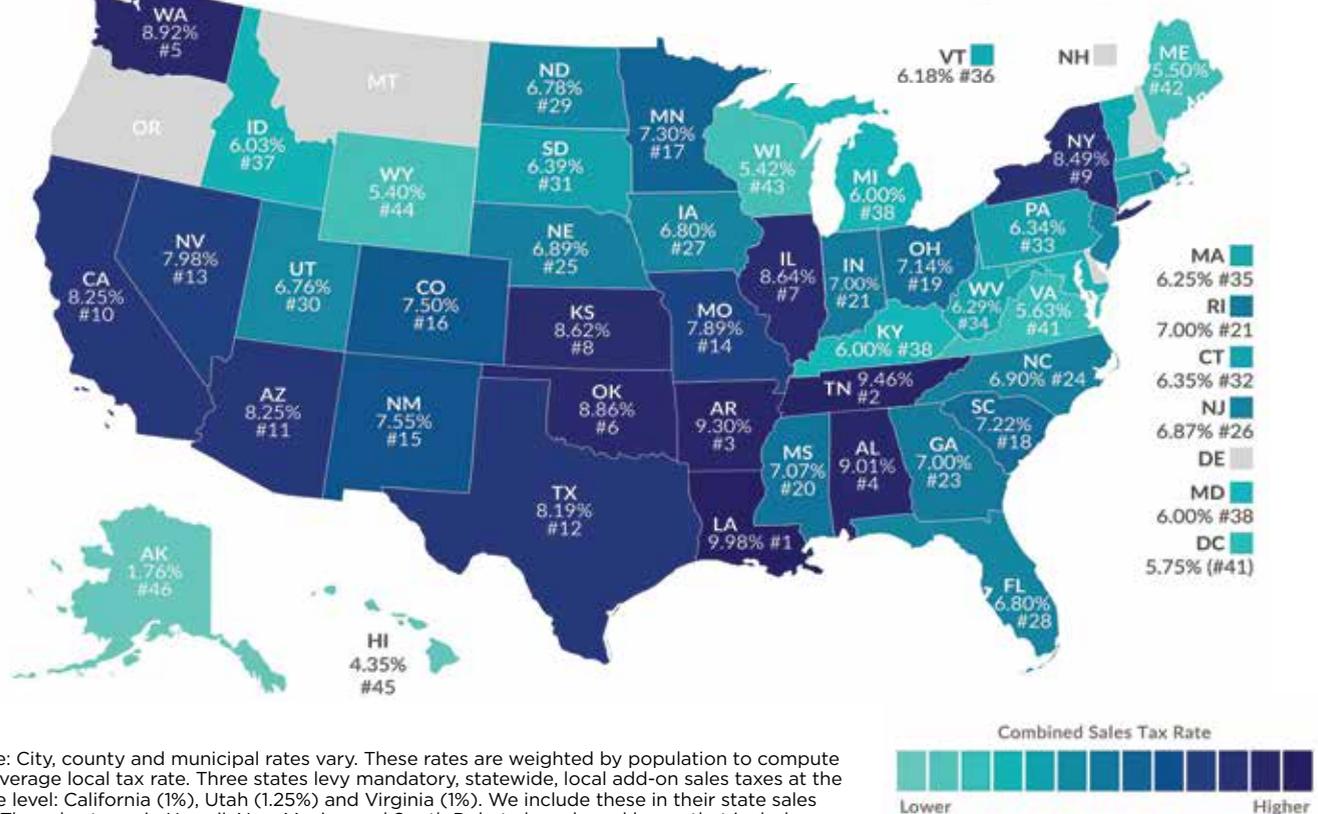
NORTH CAROLINA: SS is exempt. The deductions for certain taxpayers of up to \$4,000 for federal, state or local government retirement benefits or up to \$2,000 for private retirement benefits are no longer available as of 2014. Pursuant to

the North Carolina Supreme Court's decision in *Bailey v. State of North Carolina*, the state may not tax certain retirement benefits received by federal civil service and military retirees or retirees of the state of North Carolina and its local governments if the retiree has five or more years of creditable service as of Aug. 12, 1989.

NORTH DAKOTA: The \$5,000 exclusion for military, civil service, some state/local government and qualified pensions, minus amount of SS received, was repealed in 2009.

How High Are Sales Taxes in Your State?

Combined State and Average Local Sales Tax Rates, Jan. 1, 2017



Note: City, county and municipal rates vary. These rates are weighted by population to compute an average local tax rate. Three states levy mandatory, statewide, local add-on sales taxes at the state level: California (1%), Utah (1.25%) and Virginia (1%). We include these in their state sales tax. The sales taxes in Hawaii, New Mexico and South Dakota have broad bases that include many services. Due to data limitations, table does not include sales taxes in local resort areas in Montana. Salem County, NJ, is not subject to the statewide sales tax rate and collects a local rate of 3.4375%. New Jersey's average local score is represented as a negative.

Source: Sales Tax Clearinghouse, Tax Foundation calculations, State Revenue Department websites. Report available at <https://files.taxfoundation.org/20170131121743/TaxFoundation-FF539.pdf>
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Retirement income and out-of-state government pensions are fully taxed.

OHIO: SS and military pensions are exempt. General retirement-income credit available in an amount starting at \$25 if qualifying retirement income is at least \$501, and maxing out at \$200 if qualifying retirement income is \$8,000 or more. Residents age 65+ are entitled to a \$50 tax credit per return. Taxpayers who served in the military and receive a federal civil service retirement pension are eligible for a limited deduction if any portion of their federal retirement pay is based on credit for their military service.

These retirees can deduct the percentage (in terms of years of service) of the amount of their federal retirement pay that is attributable to their military service. Some Ohio municipalities tax federal but not state pensions.

OKLAHOMA: SS is exempt. Each individual may exclude 100% of retirement benefits received from CSRS, including survivor benefits, paid in lieu of Social Security to the extent that these benefits are included in the federal AGI. Note: Retirement benefits paid under FERS do not qualify for this exclusion. However, for retirement benefits containing both a FERS and a CSRS component, the CSRS component will qualify for the exclusion. Individuals may exclude their FERS retirement benefits or Oklahoma state employment retirement benefits or other qualifying retirement income up to \$10,000.

Individuals may exclude the greater of 75% of their military retirement benefits or \$10,000. Additional personal exemption of \$1,000 of age 65+ and federal AGI is \$15,000 or less (single), \$25,000 or less (MFJ), \$12,500 or less (MFS), or \$19,000 or less (HH).

OREGON: SS is exempt. Federal pension income of those individuals who retired before October 1, 1991, are not taxed. Those who retired after October 1, 1991, are taxed only on that portion of the annuity attributable to government service after

October 1, 1991. TSP withdrawals made after retirement are eligible for subtraction based on dates of service. If the taxpayer moves money from a TSP to another type of account, the account loses its character and future withdrawals would not be eligible for subtraction. Taxpayers age 62+ may qualify for retirement income credit if household income is below \$22,500 (or \$45,000 if MFJ) or elderly tax credit (40% of federal credit), but may not claim both. Additional standard deduction if age 65+ of \$1,200 (single, HH), \$1,000 each spouse age 65+ (MFJ, MFS and QW).

PENNSYLVANIA: SS, TSP, federal civil service, military retirement benefits and other employer-sponsored retirement plan benefits are exempt. Distributions from a 401(k) plan, IRA, and Thrift Savings Plan if age 59 1/2+, are exempt.

RHODE ISLAND: SS exempt for MFJ with federal AGI of \$100,000 or less; \$80,000 or less for single taxpayers. RR retirement benefits exempt. Out-of-state pensions are fully taxed.

SOUTH CAROLINA: SS is exempt. If below age 65, may deduct \$3,000 of qualified retirement income (including federal retirement plans and military retirement). If 65+, may deduct \$10,000 of qualified retirement income. All individuals age 65+ are entitled to a \$15,000 (single) or \$30,000 (MFJ) senior deduction from income, reduced by any deduction claimed for qualified retirement income.

TENNESSEE: SS is exempt. Tax applies only to certain interest and dividend income, not wages and salary or pension income. Any person age 65+ is tax-exempt if total annual income, from any and all sources, is \$37,000 or less, or \$68,000 or less for joint filers. An exemption of \$1,250 (\$2,500 if MFJ) is allowed against total taxable interest.

UTAH: Taxpayers age 65+ may be entitled to a retirement credit of up to \$450 (\$900 MFJ). Taxpayers under age 65, born before January

1, 1953, and with eligible retirement income may qualify for a credit up to 6 percent of eligible retirement income with a cap of \$288. The credit is phased out at 2.5 cents per dollar of modified AGI over \$16,000 (MFS), \$25,000 (single) and \$32,000 (MFJ).

VERMONT: No exemptions except for RR Benefits. Out-of-state government pensions are fully taxed.

VIRGINIA: SS is exempt. Taxpayers age 65+ may claim an age deduction: Those whose birthdate is on or before January 1, 1939, may claim an age deduction of \$12,000. Those whose birthdate is between January 2, 1939, and January 1, 1951, will have the \$12,000 deduction reduced by \$1 for every \$1 that federal AGI exceeds \$50,000 (single) or \$75,000 (MFJ, MFS). Additional personal exemption of \$800 if age 65+ or blind.

WEST VIRGINIA: \$2,000 of military, federal retirement and state pensions is exempt. Additional exemption for military pension income up to \$22,000. Taxpayers age 65+ may exclude the first \$8,000 (individual filers) or \$16,000 (MFJ) of any remaining nonexempt income.

WISCONSIN: SS is exempt. Federal civil service retirement payments are exempt if the individual: retired from the system before Jan. 1, 1964; was a member of the system as of Dec. 31, 1963, retiring at a later date and the payments received are from an account established before 1964; or is receiving payments from the system as a beneficiary (survivor) of an individual who met condition 1 or 2. If age 65+, may exempt up to \$5,000 of retirement income if federal AGI is less than \$15,000 or \$30,000 (MFJ or MFS). Additional personal exemption of \$700 and a deduction of \$250 if age 65+. Military retirement pay and retirement pay related to service with the Coast Guard, the commissioned corps of the National Oceanic and Atmospheric Administration or the commissioned corps of the Public Health Service are exempt. 