STATE TAX ROUNDUP

TAX YEAR

TAX SEASON IS UPON US,

and throughout the country, millions of people are combing through tax documents looking for any break they can find. Fortunately for NARFE members, some of that work is done for you. Welcome to the latest edition of the State Tax Roundup. This informational guide can help ensure that you do not overlook any potential savings.

The NARFE team looked through every state's tax code and placed relevant information in its comprehensive guide in the pages that follow to help make this tax season just a little bit easier. Be sure to share the roundup with fellow members, and tell other friends about it as well, so they can see how NARFE can work for them.

Every state is a little bit different, but those differences can add up in the long run. If your state is not considered tax friendly, especially to retirees, options are available for you and your NARFE federation to take action. Take a deep look at the roundup and spot the differences among the states. It may inspire you to take action and work with your state legislators to enact change.

GET TO KNOW YOUR STATE'S TAX SITUATION

You will notice that there are nine states with no personal income tax. In addition to those nine states, nine more exempt the total amount of civil service annuities from state income tax. An even deeper look reveals that five more states exempt certain civil service annuities from taxation.

Just because your state does not fall into the aforementioned categories, do not assume that your state is not tax friendly. There are deductions and other exemptions to take into account. Of course, we cannot forget about other types of taxes, such as sales and property taxes. Every state is a little different, but NARFE members should take some time to understand their state's taxes. Members may find opportunities to take action and drive change to reduce their overall tax burden.

THINGS TO CONSIDER

When was the last time that your state adjusted its income tax exemption? The issue of "bracket creep"—when taxes increase over time because of inflation—is not just an issue for tax brackets. It affects any issue defined by fixed dollar amounts, including income tax exemptions.

There have been instances where states have gone decades without adjusting their income tax exemption. That exemption's real value decreases with every passing year because of inflation, which essentially raises taxes on people without any change through legislation.

For perspective, since 2010, inflation has risen by more than 15 percent, based on the Bureau of Labor Statistics' Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). This index is used to determine cost-of-living adjustments to Social Security benefits and federal annuities. In less than a decade, costs have risen substantially, but have the states made any adjustments to reflect the changing times?

Again, inflation can affect any issue defined by fixed dollars, so it also is wise to examine any tax breaks and their potential impact on a certain adjusted

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gross income. Look through the State Tax Roundup (which continues on p. 34) to see the latest information available on your state, including when it last adjusted its tax threshold. It may get you thinking.

TAKING ACTION ON TAXES

So you looked up your state in the roundup, read the tax information and did a little research into your state's tax history. You may have found something that you want changed, and you are feeling inspired. You and many other NARFE members in your state are thinking the same thing: It is time to take action.

Luckily, NARFE has the infrastructure in place to start a grassroots movement, which is an added bonus of being a NARFE member. Each federation should have a state legislative chair that oversees state issues of concern to its members. Check your federation's website to see if that person is listed.

> Changing your state's taxes can take time, but NARFE members should not falter. NARFE members have seen tax wins in states like Indiana, New Jersey, Missouri and Kansas.

NARFE members can work on a wide variety of issues at the state level, many of which involve taxes. Need help making the next move? Check out the State Advocacy Toolkit on the grassroots page under the Advocacy department at www.narfe.org.

Changing your state's taxes can take time, but NARFE members should not falter. NARFE members have seen tax wins in states such as West Virginia, Indiana, New Jersey, Missouri and Kansas. Several federations, such as Iowa and Maryland, are working actively to improve their state taxes for seniors. Shortened state legislative sessions mean there is less time to take action in a given year, but that should not discourage you. It just means that you need to be prepared when heading into the legislative session to take action.

TAKE A LOOK

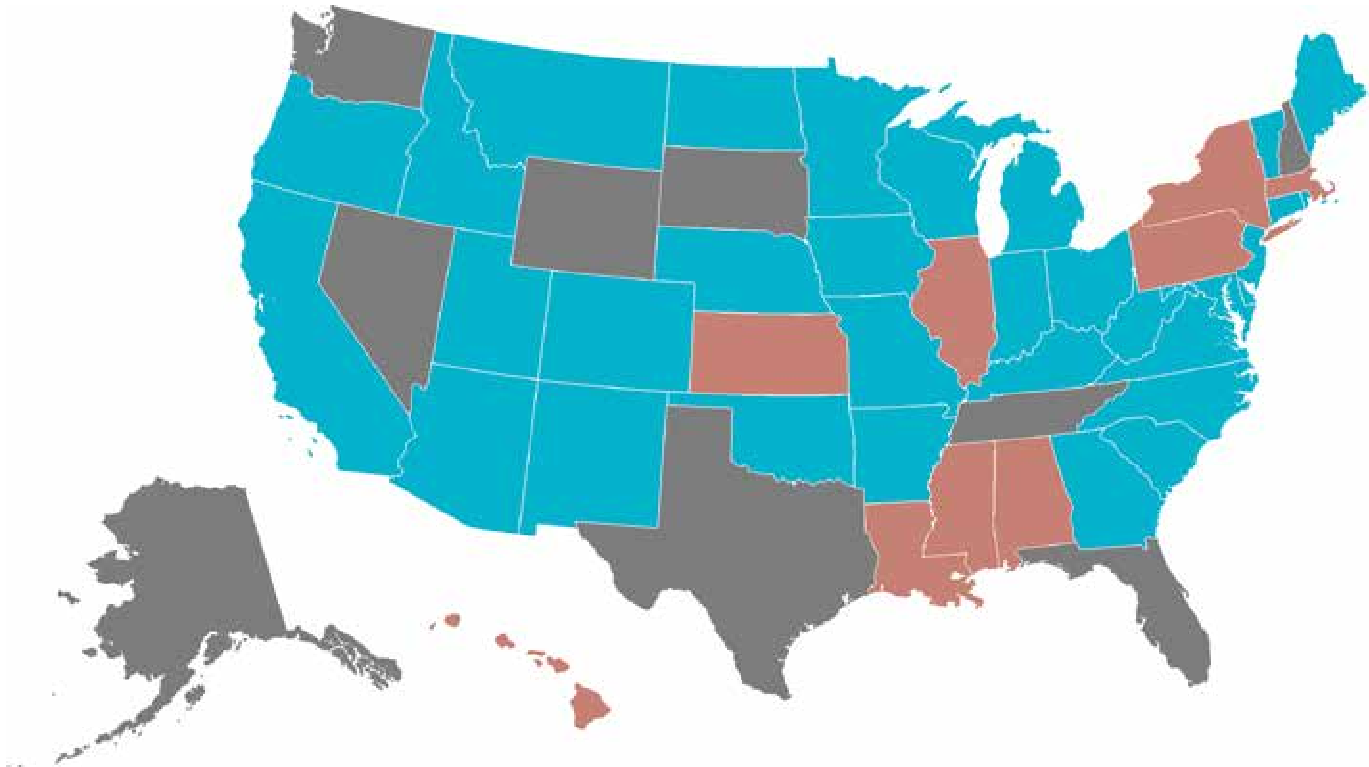
We hope you find this year's State Tax Roundup useful and informative--and do note that it's presented as information only, not tax advice. Again, you can share this information with your friends so they too can see the work and benefits that NARFE provides to its members.

Taxes can change year to year, so do not miss out on any potential savings. Be sure to look not only at your state, but at others as well. You may be enlightened by the other tax situations present throughout the country—it may lead you on a path of action.

NARFE exists as a resource for its members and will continue to advocate for all federal workers and retirees. If you have any questions about the State Tax Roundup, let NARFE know so we can be of assistance.

—**ROSS APTER**, *POLITICAL ASSOCIATE*

STATE TAX TREATMENT



States With No Personal Income Taxes

ALASKA	NEW HAMPSHIRE[1]	TEXAS
FLORIDA	SOUTH DAKOTA	WASHINGTON
NEVADA	TENNESSEE[2]	WYOMING

[1] New Hampshire: Taxes interest/dividend income at 5% if it exceeds $2,400 (single) or $4,800 (couple). $1,200 exemption for residents age 65+ (see p.37).

[2] Tennessee: Taxes certain interest/dividend income at 6% if it exceeds $1,250 (single) or $2,500 (couple). Individuals age 65+ have additional means-based exemption (see p. 39).

States Exempting Total Amount of Civil Service Annuities*

ALABAMA	KANSAS	MISSISSIPPI
HAWAII	LOUISIANA	NEW YORK
ILLINOIS	MASSACHUSETTS	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. 36 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. 36 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. 38.
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.

TAX YEAR 2018

of FEDERAL ANNUITIES

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.

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 and military retirement benefits are exempt. Exempts up to $6,000 in federal retirement, 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 59½+. Out-of-state government pensions also qualify for the exemption.

CALIFORNIA: SS is exempt. Additional $118 personal exemption for residents age 65+. All private, public and military pensions are taxed.

COLORADO: SS income that is not taxed by the federal government is exempt. $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. The same 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 AGI of $60,000 or less if MFJ. Military retirement pay is exempt. 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 as well as IRAs and 401(k)s, 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, 2018, 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, 2018, 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. For those born before Jan. 2, 1954, standard deductions increase by $1,300 for MFJ/MFS/QW and $1,600 for S/HH.

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 65+, 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

Key to Abbreviations

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.

pension income, and distributions from exclusively employer-funded pensions are exempt. Out-of-state government pensions are exempt. IRA and 401(k) distributions are treated as they are for federal taxes. Distributions to employer-funded pensions to which an employee also contributed are partially taxed. 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 and are age 65+, or 62+ and disabled, in the amount of $33,456 (if single) or $50,184 (if MFJ) minus SS and RR received. Deduction includes 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 as much as $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. 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 and military retirement benefits are exempt. Taxpayers age 55+ may exclude up to $6,000 (S, HH, QW) or $12,000 (MFJ or MFS) 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 $20 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 Jan. 1, 1998, are excluded. Annuities attributable to service after Jan. 1, 1998, are included as pension income, of which taxpayers may exclude up to $31,110. An additional credit of $40 for each individual age 65+.

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 and military retirement benefits are 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.

MARYLAND: SS is exempt. If age 65+ or totally disabled, you may exclude up to $30,600 in pension income, under certain conditions. Additional $1,000 exemption for residents age 65+. Military retirement subtraction up to $15,000 if 55+; $5,000 for those under age 55. To qualify for this subtraction, you 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. Additional exemption of $700 for individuals age 65+.

MICHIGAN: SS and military pensions are exempt. Other pension and retirement benefits are taxed differently depending on the age of the taxpayer. Federal, state and local pensions are exempt for individuals born before 1946, as are private pension and retirement benefits up to $51,570 if filing single or MFS, or $103,170 if MFJ. Taxpayers born between 1947 and 1952 are able to deduct public and private retirement benefits up to $20,000 (S) or $40,000 (MFJ). Taxpayers born after 1952 cannot deduct retirement income. However, once taxpayers reach 67 years of age, they can take a standard deduction of $20,000 (S) or $40,000 (MFJ) from all income sources, subject to conditions that depend on whether they were born before or after 1952. Additional deductions exist for SS-exempt employment based on age and retirement date.

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, along with qualified retirement income. Additional exemption of $1,500 for residents age 65+.

MISSOURI: Military retirement income exempt. 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 $37,720 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 $34,820 or less may exclude $4,180 of pension income; for AGI above $34,820, the pension income exclusion is reduced $2 for every $1 exceeding that limit. Additional exemption if age 65+. Taxpayers age 65+ may exempt $800 ($1,600 if MFJ) of interest income reported as federal AGI.

NEBRASKA: Out-of-state government pensions are fully taxed. Taxpayers with AGI less than or equal to $58,000 MFJ or $43,000 for all other returns may deduct SS income. 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 beginning with the year the retiree turns 67.

NEW HAMPSHIRE: SS is exempt. A 5 percent tax is 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 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 filing status. For 2018, MFJ can exclude up to $60,000; S, HH, or QW, can exclude up to $45,000; and MFS, can exclude up to $30,000. Under certain conditions, additional amounts from retirement plans may be eligible for exclusion if both employee and employer contributed to the plans. Additional $1,000 personal exemption for residents age 65+.

NEW MEXICO: Retirement benefits are taxed. Taxpayers age 65+ may qualify for income-dependent retirement tax exclusion of up to $8,000 if federal AGI is less than $28,500 (S), $51,000 (MFJ, HH, QW) or $25,500 (MFS). 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.

SALT Changes Now in Effect

Last year's federal tax overhaul includes a change in your ability to deduct state and local taxes (SALT) from your federal taxes.

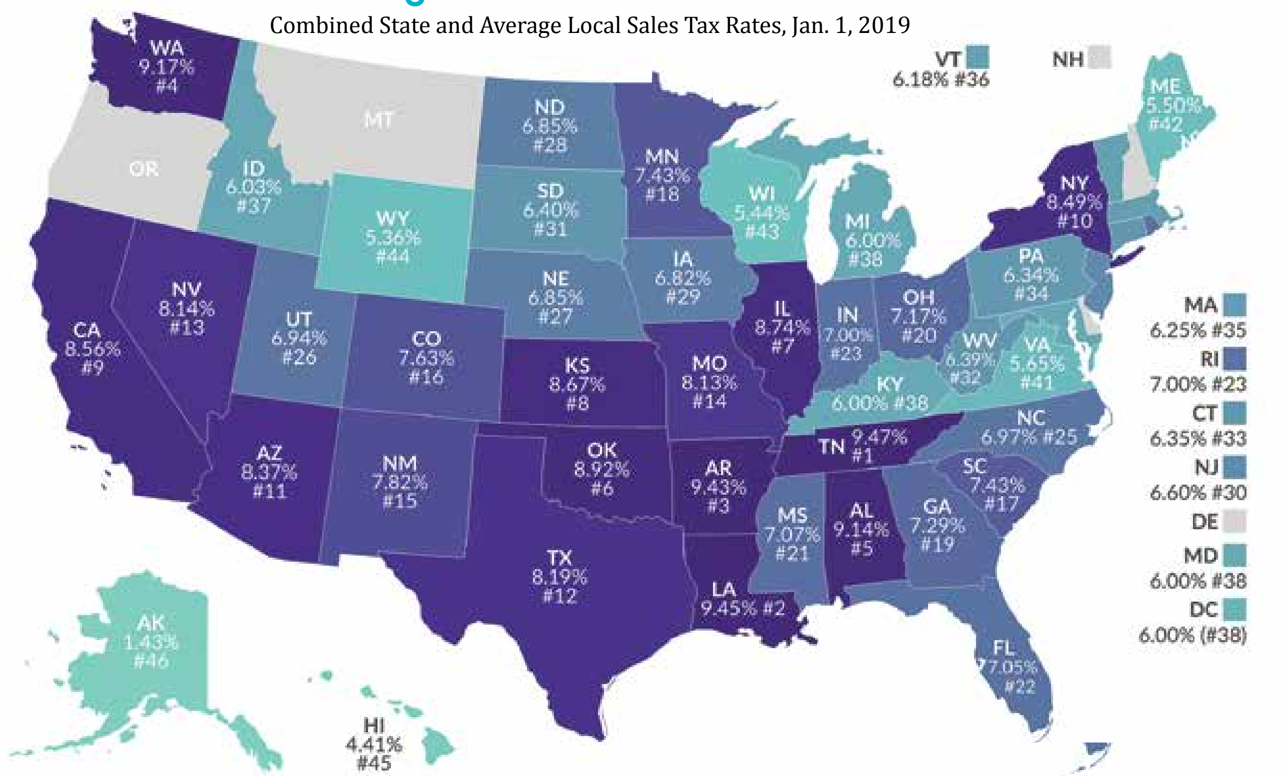
The federal tax overhaul limits state and local tax deductions to no more than $10,000 of combined income, property and sales tax payments. This will be a big change for tax filers who previously itemized because of the SALT deduction. The change sets a cap for taxpayers who itemize and take the deduction, and as a result, you could 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 have to weigh the new standard deductions ($12,000 for single filers and $24,000 for married couples) to determine whether it is best to itemize or not.

NEW YORK: SS and state and federal pensions, including military and civil service, are exempt. An additional pension and annuity income exclusion of up to $20,000 is available to persons age 59½+. Out-of-state government pensions can be deducted as part of a $20,000 exemption.
NORTH CAROLINA: SS is exempt. 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: Retirement income and out-of-state government pensions are fully taxed.
OHIO: SS and military pensions are exempt. General retirement-income credit available starting at $25 if qualifying retirement income is at least $501; the credit tops 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.

How High Are Sales Taxes in Your State?

Combined State and Average Local Sales Tax Rates, Jan. 1, 2019



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 (1.25%), 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. Special taxes in local resort areas are not counted here. Salem County, NJ, is not subject to the statewide sales tax rate and collects a local rate of 3.3125%. New Jersey's average local score is represented as a negative. DC's rank does not affect states' ranks, but the figures in parentheses indicate where it would rank if included.

Source: Sales Tax Clearinghouse, Tax Foundation calculations, State Revenue Department websites.
Full report available at www.taxfoundation.org/sales-tax-rates-2019/

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 SS to the extent that these benefits are included in the federal AGI. 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 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 for 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 Oct. 1, 1991, are not taxed. Those who retired after Oct. 1, 1991, are taxed only on that portion of the annuity attributable to government service after Oct. 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). 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 59½+ are exempt.

RHODE ISLAND: SS is only exempt for MFJ with federal AGI of $102,400 or less; $81,900 or less for single taxpayers. These income thresholds also apply to exempting up to $15,000 of qualified pension or retirement income for those age 65+.

SOUTH CAROLINA: If under age 65, may deduct $11,700, but increases by $2,900 each year until it is fully phased in at $17,500 in 2020. 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 only applies to certain interest and dividend income, not wages, salary or pension income. An exemption of $1,250 ($2,500 if MFJ) is allowed against total taxable interest. Anyone age 65+ is exempt if total annual income from all sources is $37,000 or less ($68,000 or less for MFJ); those age 100+ are exempt regardless of income.

UTAH: Taxpayers age 65+ may be entitled to a retirement credit of up to $450 ($900 MFJ). Taxpayers under age 65, born before Jan. 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: SS only exempt for single filers making less than $45,000 a year ($60,000 MFJ); partially exempt with income up to $55,000 ($70,000 MFJ). All other retirement benefits are fully taxed.

VIRGINIA: SS is exempt. Taxpayers age 65+ may claim an age deduction: Those born on or before Jan. 1, 1939, may claim an age deduction of $12,000. Those born between Jan. 2, 1939, and Jan. 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+.

WEST VIRGINIA: Residents can exempt $2,000 of civil and state pensions. Additional exemption for military pension income up to $22,000. Taxpayers age 65+ may exclude the first $8,000 (S) or $16,000 (MFJ) of remaining nonexempt income.

WISCONSIN: SS and military retirement benefits are exempt, as is retirement pay related to service with the Coast Guard or the respective commissioned corps of the National Oceanic and Atmospheric Administration or the Public Health Service. CSRS/FERS pay is exempt if the individual's account was established prior to 1964 or if the individual is receiving payments from the system as a beneficiary of such an account. If age 65+, may exempt up to $5,000 of retirement income if federal AGI is less than $15,000 (S) or $30,000 (MFJ or MFS). Additional personal exemption of $700 and a deduction of $250 if age 65+.