

## State Tax Treatment of Federal Annuities – Tax Year 2011

This roundup of state tax treatment of federal annuities and other tax information was compiled by the NARFE Legislative Department. The information also is available on the NARFE website, [www.narfe.org](http://www.narfe.org).

### STATES WITH NO PERSONAL INCOME TAXES

Alaska Florida	Nevada New Hampshire <sup>1</sup>	South Dakota Tennessee <sup>2</sup>	Texas Washington	Wyoming
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<sup>1</sup> 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+.  
<sup>2</sup> Tennessee: Taxes certain interest/dividend income at 6% if it exceeds \$1,250 (single) or \$2,500 (couple).

### STATES EXEMPTING TOTAL AMOUNT OF CIVIL SERVICE ANNUITIES

Alabama Hawaii Illinois	Kansas Kentucky <sup>1</sup> Louisiana	Massachusetts Michigan Mississippi	New York North Carolina <sup>2</sup> Oregon <sup>3</sup>	Pennsylvania Tennessee
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<sup>1</sup> Kentucky: Amount attributable to service prior to January 1, 1998, is exempt. See below for taxation of annuities attributable to service on or after January 1, 1998.

<sup>2</sup> North Carolina: Annuities not taxed if the individual had five years of government service as of August 12, 1989. If otherwise, see below.

<sup>3</sup> Oregon: Annuities of those 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.

### OTHER EXEMPTIONS

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

**ALABAMA:** SS is exempt. Income from defined benefit pension plans is exempt.

**ARIZONA:** \$2,500 exclusion for federal, military and Arizona state and local pension income. SS and RR exempt. Additional personal exemption for all residents age 65+.

**ARKANSAS:** Exempts up to \$6,000 in federal civil service, 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+. SS and Tier I and Tier 2 RR benefits are exempt. Additional \$23 exemption for residents age 65+.

**CALIFORNIA:** SS and RR are exempt. Additional \$102 personal exemption for residents age 65+. Residents age 65+ with AGI below \$65,153 who qualified as HH in 2009 or 2010 by providing a household for a qualifying individual who died during 2009 or 2010 may claim a tax credit of 2% of their income up to a maximum of \$1,228. All private and public pensions are taxed. Additional 2.5 % tax on early distributions and qualified pensions.

**COLORADO:** \$20,000 pension/annuity exemption for all taxpayers between the ages of 55 and 64. \$24,000 pension/annuity exemption for all taxpayers age 65+.

**CONNECTICUT:** SS is exempt if federal AGI is \$50,000 or less (if single or MFS), or \$60,000 or less (if MFJ, HH or QW with dependent child). All out-of-state government and federal civil service pensions are fully taxed. Exempts 50% of federally taxable military retirement pay.

**DELAWARE:** Taxpayers age 60+ may exclude \$12,500 of investment and qualified pension income (including out-of-state and fed-

eral government pensions) and qualify for an additional tax credit of \$110. Taxpayers under age 60 may exclude \$2,000. Taxpayers age 65+ (or blind) are entitled to an additional standard deduction of \$2,500 (if not itemizing). Single or MFS taxpayers age 60+ as of December 31, 2010, 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 December 31, 2010, or totally disabled, may exclude \$4,000 if earned income is less than \$5,000 and AGI is \$20,000 or less. SS and RR are exempt.

**DISTRICT OF COLUMBIA:** Taxpayers age 62+ may exclude \$3,000 of military, federal and DC government pensions. For taxpayers age 62+, DC or federal government survivor benefits are exempt from DC tax. Additional exemption of \$1,675 for residents age 65+. SS is exempt.

**GEORGIA:** Taxpayers who are age 62+, or permanently and totally disabled regardless of age, may exclude \$35,000 of retirement income if single or MFS, and \$70,000 if MFJ (assuming both spouses qualify). 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. SS is exempt. For taxpayers age 65+, the retirement income tax exclusion will increase to \$65,000 in 2012, \$100,000 in 2013, \$150,000 in 2014, \$200,000 in 2015 and unlimited thereafter.

**HAWAII:** SS and Tier I RR benefits are exempt. Additional personal exemption of \$1,040 per person age 65+.

**IDAHO:** SS and RR are 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 \$27,876 (if single) or \$41,814 (MFJ) minus SS and RR received. Persons using MFS status are not eligible for the retirement benefits deduction. Add \$1,100 to standard deduction if age 65+ and MFS, MFJ or QW; add \$1,400 if age 65+ and single or HH.

**ILLINOIS:** SS and RR and income from any qualified employee

benefit plan are exempt.

**INDIANA:** Taxpayers age 60+ may exclude \$2,000 from military pensions minus the amount of SS and RR benefits received. Taxpayers age 62+ may deduct from their AGI \$2,000 from a federal civil service annuity (survivor annuities not included). SS and RR benefits are exempt. Additional personal exemption of \$1,000 or \$1,500 if federal AGI is less than \$40,000 for residents age 65+. May deduct from income premiums paid for long-term care insurance through the Indiana Partnership.

**IOWA:** Taxpayers age 55+ may exclude up to \$6,000 (if single) or \$12,000 (if MFJ) of pension or annuity income, self-employed retirement plan income, deferred compensation, IRA benefits or other retirement plan benefit income (not including SS). 67% of federally taxable SS benefits are excluded. RR benefits exempt but used to calculate amount of federally taxable SS benefits. Additional \$20 personal exemption credit for those age 65+.

**KANSAS:** RR, military, in-state/local pensions are exempt. SS exempt if federal AGI is \$75,000 or less; otherwise, only federally taxable benefits taxed. Additional \$850 deduction for those age 65+.

**KENTUCKY:** All federal civil service 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. SS and RR benefits, Roth IRA proceeds exempt.

**LOUISIANA:** SS is exempt. Federal annuities are exempt. In addition, persons age 65+ may exclude up to \$6,000 of annual retirement income from their taxable income. Taxpayers MFJ and both age 65+ can each exclude up to \$6,000 of annual retirement income. If only one spouse has retirement income, the total exclusion is limited to \$6,000.

**MAINE:** May deduct \$6,000 of eligible pension income, including federal civil service annuity income, from federal AGI. Except for military income, the \$6,000 deduction must be reduced for SS and RR benefits. Additional standard deductions: for individuals, \$1,400 if age 65+; for MFS, MFJ or QW, \$1,100 per spouse or person who is age 65+.

**MARYLAND:** If age 65+, may exclude up to \$26,300 in pension income, reduced by SS or RR benefits. SS and RR are exempt. Additional \$1,000 exemption for residents age 65+. Additional \$5,000 exemption for military retirement income received by an individual of any age or the surviving spouse or ex-spouse of the individual, if the individual was 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.

**MASSACHUSETTS:** SS is exempt. Additional exemption of \$700 for individuals age 65+.

**MICHIGAN:** In-state, local and military pensions are exempt. SS and RR are exempt. Some out-of-state public pensions are exempt. Private pension income is exempt up to \$45,842 (individual filers) or \$91,684 (MFJ), reduced by the amount of any public pension deduction claimed. Taxpayers age 65+ may deduct interest, dividends and capital gains up to \$10,218 (individual filers) or \$20,437 (MFJ). Additional exemption of \$2,300 for individuals age 65+. *Significant changes to tax treatment of retirement income begin in tax year 2012 (returns filed in 2013) for taxpayers born in 1946 or*

*later. Notably, federal civil service annuities will lose their current full exemption. For taxpayers born in 1946-1952, before the taxpayer reaches age 67, public and private pension income will be exempt only up to \$20,000 (single) or \$40,000 (MFJ), and no deduction will be allowed for interest, dividends and capital gains. After reaching age 67, taxpayers born in 1946-1952 will be allowed a \$20,000 (single) or \$40,000 (MFJ) subtraction against all income. For taxpayers born in 1953 or later, there will be no public or private pension exemption or interest, dividends and capital gains exemption before the individual reaches age 67. Once 67, those taxpayers may elect either to exempt up to \$20,000 (single) or \$40,000 (MFJ) without any exemption for SS, RR or military retirement and no personal exemptions, or they may elect to exempt SS, military and RR and claim personal exemptions. Full details of the changes are available at [www.michigan.gov/documents/taxes/Tax\\_Change\\_Summaries\\_-\\_Retirement\\_Exemptions\\_359799\\_7.pdf](http://www.michigan.gov/documents/taxes/Tax_Change_Summaries_-_Retirement_Exemptions_359799_7.pdf).*

**MINNESOTA:** RR is exempt.

**MISSISSIPPI:** Qualified retirement income (including civil service annuities and SS) is exempt. Additional exemption of \$1,500 for residents age 65+.

**MISSOURI:** Taxpayers with AGI under \$85,000 (single, HH, MFS, QW) or \$100,000 (MFJ) may exempt the greater of \$6,000 or 80% of any federal, state or local pension income, up to a maximum of \$34,141 per taxpayer. 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 must reduce their private pension exemption dollar for dollar as income exceeds the limit. Taxpayers age 62+ or disabled with an AGI under \$85,000 (single, HH, MFS, QW) or \$100,000 (MFJ) may exempt 80% of the taxable amount of SS but must reduce their public pension exemption by the amount deducted for SS. Taxpayers may exempt 30% of military pension income.

**MONTANA:** Taxpayers with AGI under \$30,320 may exclude \$3,640 of pension income; for AGI above \$30,320, the pension income exclusion is reduced \$2 for every \$1 of AGI above \$30,320. RR benefits are exempt. Additional exemption of \$2,040 if age 65+. Taxpayers age 65+ may exempt \$800 of interest income reported as federal AGI or \$1,600 if MFJ.

**NEBRASKA:** Tier I and II RR benefits are exempt.

**NEW JERSEY:** Taxpayers age 62+ may exclude up to \$10,000 (MFS), \$15,000 or \$20,000 (MFJ) of pensions, annuities and IRA withdrawals, provided gross income is not over \$100,000. In addition, taxpayers age 62+ with earned income (from wages, net business profits, distributive share of partnership income and net pro rata share of S corporation income) of \$3,000 or less, and with gross income not over \$100,000, may exclude other non-pension retirement income up to the maximum exclusion amount. SS and RR benefits are exempt, reported as pension income. If ineligible for SS or RR, entitled to deduct an additional \$3,000 (single, MFS) or \$6,000 (MFJ, HH, QW). Military pensions are exempt. Additional \$1,000 personal exemption for residents age 65+. If taxpayer 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.

**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 exemp-

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tion reduces as income increases, with no exemption if income is over \$25,500 (MFS), \$28,500 (single) or \$51,000 (MFJ). RR is exempt. If age 100+, exempt from state income tax, but only if centenarian cannot be claimed as a dependent by someone else.

**NEW YORK:** In addition to the exemption for pensions of New York state, local governments and the federal government, an additional pension and annuity income exclusion of up to \$20,000 is available to persons age 59-1/2+ as of January 1, 2010. SS and RR are exempt.

**NORTH CAROLINA:** Pursuant to the North Carolina Supreme Court's decision in *Bailey v. State of North Carolina*, 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 August 12, 1989. If retirees in those categories did not have five years of service as of August 12, 1989, they may deduct the amount included in federal taxable income or \$4,000, whichever is less. This deduction also applies to retirement benefits paid to former teachers and state employees of other states and their political subdivisions regardless of the five-year service date. If MFJ and both spouses received federal, state or local government retirement benefits, each may deduct up to a maximum of \$4,000. If an individual's federal taxable income includes retirement benefits from a private retirement plan, a deduction of up to \$2,000 may be available. If an individual received both government and private retirement benefits, the maximum deduction is the total amount included in federal taxable income or \$4,000, whichever is less. Taxpayers age 65+ receive an additional standard deduction of \$750 (single) or \$1,200 (\$600 each for a couple if both age 65+).

**NORTH DAKOTA:** RR is exempt. May exclude 30% of net long-term capital gains and qualified dividends.

**OHIO:** General retirement income credit available in an amount starting at \$25, if qualifying retirement income is at least \$500, 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. Military pension income is exempt. 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. SS and RR are exempt.

**OKLAHOMA:** Each individual may exclude 100% of retirement benefits received from federal 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 federal civil service retirement benefits or Oklahoma state employment retirement benefits up to \$10,000, but not to include the amount claimed under the CSRS exclusion above. Individuals may exclude the greater of 75% of their military retirement benefits or \$10,000. SS is exempt.

**OREGON:** Taxpayers age 62+ may qualify for retirement income credit (see worksheet regarding line 34) or elderly tax credit (40% of federal credit), but may not claim both. SS and RR benefits are exempt. Additional standard deduction if age 65+ of \$1,200 (single, HH), \$1,000 each spouse 65+ (MFJ, MFS and QW).

**PENNSYLVANIA:** Retirement income is not taxed after age 59-1/2.

**RHODE ISLAND:** RR is exempt.

**SOUTH CAROLINA:** If below age 65, may deduct \$3,000 of qualified retirement income. If age 65+, may deduct \$10,000 of qualified retirement income. All individuals age 65+ are entitled to a \$15,000 deduction from income, reduced by any deduction claimed for qualified retirement income. SS and RR are exempt.

**TENNESSEE:** 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 \$16,200 or less, or \$27,000 or less for joint filers.

**UTAH:** Taxpayers age 65+ may be entitled to a retirement credit of up to \$450 (\$900 MFJ), which is phased out at income levels of \$25,000 (single) and \$32,000 (MFJ). Taxpayers under age 65, born before January 1, 1953, and with eligible retirement income may qualify for a credit up to 6% of eligible retirement income with a cap of \$288, which is phased out starting at income levels of \$25,000 (single) and \$32,000 (MFJ).

**VIRGINIA:** Taxpayers age 65+ whose birthdate is on or before January 1, 1939, may claim an age deduction of \$12,000 (available for each person or spouse if MFJ). If birthdate is on or between January 2, 1939, and January 1, 1947, the \$12,000 age deduction is reduced by \$1 for every \$1 that adjusted federal AGI exceeds \$50,000 (single) or \$75,000 (MFJ, MFS). SS and Tier I RR benefits are exempt. Additional personal exemption of \$800 if age 65+ or blind. Long-term care premiums are eligible for deduction.

**WEST VIRGINIA:** \$2,000 of civil service and state pensions are exempt. Taxpayers age 65+ or surviving spouses may exclude the first \$8,000 (single) or \$16,000 (MFJ) of any retirement income. Additional modification for military pension income for the first \$20,000. RR is exempt.

**WISCONSIN:** Federal retirement payments are exempt from state income tax if: 1) individual retired from the system before January 1, 1964; 2) individual was a member of the system as of December 31, 1963, retiring at a later date and the payments received are from an account established before 1964; or 3) individual 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). Additional personal exemption of \$250 if age 65+. SS and RR benefits are exempt. 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. ■

State Sales Tax Roundup  
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## STATE SALES TAX (DOES NOT INCLUDE CITY OR COUNTY ADD-ONS)

Alabama*	4.0 %	Illinois 6	6.25 %	Montana	0.0 %	Rhode Island*† 15	7.0 %
Alaska	0.0	Indiana*†	7.0	Nebraska*†	5.5	S. Carolina*†	6.0
Arizona*†	6.6	Iowa*†	6.0	Nevada*†	6.85	S. Dakota*	4.0
Arkansas* 1	6.0	Kansas*	6.3	New Hampshire	0.0	Tennessee* 16	7.0
California*†	7.25	Kentucky*†	6.0	New Jersey*† 11	7.0	Texas*† 17	6.25
Colorado*†	2.9	Louisiana*†	4.0	New Mexico 12	5.125	Utah* 18	5.95
Connecticut*†	6.0	Maine*†	5.0	New York*† 13	4.0	Vermont*† 19	6.0
Delaware 2	0.0	Maryland*† 7	6.0	N. Carolina	4.75%	Virginia* 20	5.0
Dist. of Col.*† 3	6.0	Massachusetts*†	6.25	N. Dakota*†	5.0	Washington*†	6.5
Florida*† 4	6.0	Michigan*†	6.0	Ohio*†	5.5	West Virginia* 21	6.0
Georgia*†	4.0	Minnesota*† 8	6.875	Oklahoma*	4.5	Wisconsin*†	5.0
Hawaii* 5	4.0	Mississippi* 9	7.0	Oregon	0.0	Wyoming*†	4.0
Idaho*	6.0	Missouri* 10	4.225	Pennsylvania*† 14	6.0		

\* Prescription drugs are exempt

† Food is exempt

*Exemptions are not exhaustive. Gas and cigarette taxes are not included.*

*1 Arkansas: Taxes food at 1.5%*

*2 Delaware: Imposes a gross receipts tax on the seller of goods (tangible or otherwise) ranging from 0.1037% to 2.0736%*

*3 District of Columbia: Also exempts nonprescription drugs and residential utility services. Imposes different rates for liquor sold for off-the-premises consumption (10%); restaurant meals, liquor for consumption on the premises and rental vehicles (10%); parking motor vehicles in commercial lots (12%); and hotels or transient accommodations (14.5%)*

*4 Florida: Also exempts nonprescription drugs*

*5 Hawaii: Does not technically have a sales tax but imposes a general excise tax of 4% of the gross receipts of most businesses*

*6 Illinois: Taxes qualifying food, prescription and nonprescription drugs, and medical appliances at 1%*

*7 Maryland: Also exempts nonprescription drugs*

*8 Minnesota: Also exempts nonprescription drugs*

*9 Mississippi: Additional exemptions and varied rates available at [www.dor.ms.gov/taxareas/sales/main.html](http://www.dor.ms.gov/taxareas/sales/main.html)*

*10 Missouri: Taxes food at 1.225%*

*11 New Jersey: Also exempts nonprescription drugs, clothing and footwear*

*12 New Mexico: Does not have a sales tax but imposes a gross receipts tax instead, which has a similar effect, on persons engaged in business in New Mexico. In almost every case, the tax is passed to the consumer, either separately stated or as a part of the selling price. Rate varies within the state from 5.125%–8.8675%. Deductions are available, including for prescription drugs and qualifying food sales.*

*13 New York: Also exempts nonprescription drugs*

*14 Pennsylvania: Also exempts nonprescription drugs, clothing, textbooks and heating fuels*

*15 Rhode Island: Also exempts nonprescription drugs*

*16 Tennessee: Taxes food at 5.5%*

*17 Texas: Also exempts nonprescription drugs*

*18 Utah: Includes a 1.25% tax levied by local governments. Taxes food at a state rate of 1.75% with local additions of up to 3%*

*19 Vermont: Also exempts nonprescription drugs, clothing and footwear, newspapers and residential utilities*

*20 Virginia: Includes statewide local tax of 1%. Taxes food for home consumption at 2.5%, which includes statewide local tax of 1%. Also exempts nonprescription drugs*

*21 West Virginia: Taxes food at 3%*