

State Tax Treatment of Federal Annuities—Tax Year 2008

This roundup of state tax treatment of federal annuities and other tax information was compiled by the NARFE Legislative Department after contacting tax officials in all 50 states and the District of Columbia to verify the information. The information also is available on the NARFE Web site, www.narfe.org.

STATES EXEMPTING TOTAL AMOUNT OF CIVIL SERVICE ANNUITIES

Alabama	Kansas	Massachusetts ²	New York	Pennsylvania
Hawaii	Kentucky ¹	Michigan	North Carolina ³	Tennessee
Illinois	Louisiana	Mississippi	Oregon ⁴	Wisconsin ⁵

¹ Kentucky: Total amount is exempt only if retired before January 1, 1998. See below for retirements after December 31, 1997.

² Massachusetts: Tax rate on ordinary income, including interest and dividends, is 5.3%.

³ North Carolina: Annuities not taxed beginning with 1998 if individual had five years of government service as of August 12, 1989.

⁴ 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.

⁵ Wisconsin: Full exemption if benefits received from a retirement account established before 1964.

STATE SALES TAX (DOES NOT INCLUDE CITY OR COUNTY ADD-ONS)

Alabama	4.0 %	Georgia	4.0 %	Massachusetts	5.0 %	New York	4.0 %	Texas	6.25 %
Alaska	0.0	Hawaii ¹	0.0	Michigan	6.0	North Carolina	4.5	Utah ⁵	4.7
Arizona	5.6	Idaho	6.0	Minnesota ³	6.875	North Dakota	5.0	Vermont	6.0
Arkansas	6.0	Illinois	6.25	Mississippi	7.0	Ohio	5.5	Virginia	5.0
California	6.0	Indiana	7.0	Missouri	4.225	Oklahoma	4.5	Washington	6.5
Colorado	2.9	Iowa	6.0	Montana	0.0	Oregon	0.0	West Virginia ⁶	3.0-6.0
Connecticut	6.0	Kansas	5.3	Nebraska	5.5	Pennsylvania	6.0	Wisconsin	5.0
Delaware	0.0	Kentucky	6.0	Nevada	2.0	Rhode Island	7.0	Wyoming ⁷	4.0-7.0
Dist. of Columbia	5.75-14.5	Louisiana	4.0	New Hampshire	0.0	South Carolina ⁴	6.0		
Florida	6.0	Maine	5.0	New Jersey	7.0	South Dakota	4.0		
		Maryland ²	6.0	New Mexico	5.0	Tennessee	7.0		

¹ Hawaii: Although Hawaii does not have a sales tax, it levies a general excise tax on the gross receipts of most businesses. The retail rate for the tax is 4%.

² Maryland: Effective January 3, 2008, state sales tax increased to 6%.

³ Minnesota: Effective July 1, 2009, state sales tax will increase from 6.5% to 6.875%.

⁴ South Carolina: 6% applies to general sales and use tax rate. For a detailed list of tax rates under the sales and use tax law, visit www.sctax.org.

⁵ Utah: Effective January 1, 2009, the state portion of the Utah sales tax combined rate was increased to 4.7%, but the state sales tax on food and food ingredient purchases remains 1.75%.

⁶ West Virginia: Effective July 1, 2008, sales tax and use tax were reduced to 3% on the sales, purchases and uses of food and food ingredients intended for human consumption.

⁷ Wyoming: Current sales tax and use tax can be found at <http://revenue.state.wy.us>.

STATES WITH NO PERSONAL INCOME TAXES

Alaska	Nevada	South Dakota	Texas	Wyoming
Florida	New Hampshire ¹	Tennessee ²	Washington	

¹ New Hampshire: 5% tax on interest/dividend income that exceeds \$2,400 (single) or \$4,800 (couple). \$1,200 exemption for residents 65+, blind or disabled prior to their 65th birthday.

² Tennessee: Certain interest/dividend income taxed at 6% if it exceeds \$1,250 (single) or \$2,500 (couple).

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

Arizona: \$2,500 exclusion for federal and Arizona state and local pensions. All residents receive a \$2,100 personal exemption. All residents 65+ receive an additional \$2,100 exemption.

Arkansas: In addition to \$6,000 exemption provided for distributions received from employment-related pension plans, the cost recovery adjustment calculated pursuant to Internal

Revenue Code, Section 72, using the simplified worksheet found in the federal return, is applicable to Arkansas returns filed for 2003 and subsequent years. Total exemption allowable for employer-sponsored pension plans and/or IRAs is \$6,000 per taxpayer. All residents 65+ receive an additional \$23 exemption. RR and SS are exempt. All unearned income is taxed as ordinary income.

California: Personal and age 65+ exemption of \$94 (MFS, HH or single); \$188 (MFJ or QW). Qualified senior HH credit with maximum of \$1,146 (maximum AGI allowed is \$60,791). SS and California Municipal Bond Interest are exempt.

Colorado: \$20,000 pension and annuity exemption for all taxpayers 55-64. \$24,000 pension and annuity exemption for all taxpayers 65+. Colorado follows federal rules, exempts U.S. government interest and taxes municipal interest earned from states other than Colorado.

Connecticut: Personal exemptions of up to \$12,000 (filing separately); \$13,000 (single); \$19,000 (HH) and \$24,000 (filing jointly or QW with dependent child). SS benefits are tax-exempt if federal AGI is less than \$50,000 (single or filing separately) or less than \$60,000 (filing jointly, HH or QW with dependent child). The amount of taxable benefits is reduced for those with AGI above those levels.

Delaware: \$2,000 pension exclusion (\$12,500 for those 60+). Additional personal credit of \$110 for those 60+. In addition, all residents 60+ or totally disabled get a \$2,000 exemption if earned income is less than \$2,500 and AGI is under \$10,000. (Figures double if married.) Delaware exempts SS and RR pension income.

District of Columbia: Pension exemption for those who are 62+ by end of tax year and receive military retirement pay or annuity income from DC or federal government. Exclusion is \$3,000 or actual amount received, whichever is less. Additional exemption of \$1,675 for all residents 65+. Survivor benefits received from DC or federal government are exempt for those 62+.

Florida: The annual Intangible Personal Property Tax was repealed, effective January 1, 2007. Florida does not tax unearned income, such as interest, dividends, etc.

Georgia: Effective January 2008, \$35,000 retirement income exclusion if 62+ or totally disabled. SS benefits are exempt from state tax.

Hawaii: SS benefits and Tier I RR benefits are not taxable. Residents are allowed a personal exemption of \$1,040 per person, plus an additional \$1,040 per person for those 65+. This applies only to the taxpayer or the taxpayer's spouse.

Idaho: Maximum exclusion for those 65+ or 62+ and disabled: \$26,220 (single); \$39,330 (married couple) minus SS and RR received. Exclusion amounts are adjusted yearly. SS and RR benefits paid by the Railroad Retirement Board are exempt from Idaho tax.

Indiana: \$2,000 pension exclusion if 62+ (minus SS and RR). No pension exclusion allowed for civil service survivor annuitants. In addition, all residents 65+ receive a \$1,000 personal exemption or \$1,500 if federal AGI is less than \$40,000. Premiums paid for Indiana's Long-Term Care Insurance Program are fully deductible.

Iowa: \$6,000 (single); \$12,000 (joint) for disabled and those 55+. Also a \$20 personal exemption credit for 65+. Thirty-two percent of taxable SS benefits are exempt. All taxpayers 65+ other than single taxpayers whose income is \$24,000 or less are exempt. For married couples, only one spouse need be 65+ to qualify.

Kentucky: With retirements after January 1, 1998, some of the civil service annuity is taxed. The percentage is based on number of years of government service before January 1, 1998, and total years worked. All residents receive an exclusion of up to \$41,110 of taxable pension benefits.

Louisiana: SS is nontaxable.

Maine: Eligible pension deduction of \$6,000 (must complete Worksheet for Pension Income Deduction). Additional standard deduction for age and/or blindness: unmarried (single or HH):

\$1,350 if the individual is 65+ OR blind; \$2,700 if the individual is both 65+ AND blind. Married (MFS or MFJ) or a QW: \$1,050 if one spouse is age 65+ OR blind; \$2,100 if one spouse is 65+ AND blind; \$2,100 if both spouses are 65+ OR blind; \$4,200 if both spouses are 65+ AND blind.

Maryland: Pension exclusion up to \$24,000 for those 65+ or totally disabled, reduced by SS or RR benefits. SS and RR benefits are exempt. All residents 65+ receive a personal exemption of \$1,000. In addition, there is an exemption for \$5,000 of 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 armed forces of the United States; an active duty member of the commissioned corps of the Public Health Service, the National Oceanic and Atmospheric Administration, or the Coast and Geodetic Survey; or a member of the Maryland National Guard.

Massachusetts: An exemption of \$700 is available for individuals who reached age 65 by January 1, 2007. This is in addition to the personal exemption of \$4,125 (single or MFS); \$6,375 (HH) and \$8,250 (MFJ). SS and VA disability are nontaxable.

Michigan: SS and public pension income from all sources are exempt from Michigan income tax. Private retirement income included in AGI is deductible up to \$43,440 (single) and \$86,880 (joint). The private pension deduction amount is reduced by the amount of exempt public pension income. Retirement income does not include payments made before the individual was eligible to retire under the provisions of the plan. A deduction for taxpayers age 65+ is allowed for income from dividends, interest and capital gains included in AGI up to \$9,690 (single) and \$19,380 (joint). The allowable deduction is reduced by all pension deductions from AGI, public and private. Seniors (65+) are allowed an additional exemption of \$2,200 for tax year 2008.

Minnesota: Singles 65+ or disabled have some income excluded if federal AGI is under \$33,700, and nontaxable SS is under \$9,600. For a couple, limits are \$42,000 AGI and \$12,000 nontaxable SS.

Mississippi: \$12,000 exemption for MFJ; \$6,000 MFS. All residents 65+ receive an additional \$1,500 exemption.

Missouri: Up to \$6,000 of pensions received from a private source may be deducted from Missouri AGI for those with modified Missouri AGI below \$25,000 (single); \$16,000 (MFS) and \$32,000 (MFJ), decreased dollar for dollar by the amount of income that exceeds the income limitation. Those with modified Missouri AGI less than \$85,000 (single, HH, MFS or QW) or \$100,000 (MFJ) can deduct the greater of \$6,000 or 35% of their public retirement benefits, to the extent the amounts are included in their federal AGI. The total public pension exemption is limited to the maximum SS benefit of each spouse. Those with modified Missouri AGI less than \$85,000 (single, HH, MFS or QW) or \$100,000 (MFJ) can deduct the greater of \$6,000 or 35% of taxable SS and SS disability benefits. Only those 62+ may qualify for the SS exemption; there is no age requirement for the SS disability exemption.

Montana: \$3,600 pension exclusion for those with AGI below \$30,000, reduced \$2 for every \$1 over \$30,000. All residents 65+ receive an additional personal exemption of \$1,900, indexed annually for inflation. \$800 (single) or \$1,600 (couple) of interest income is exempt for those 65+. Tier I and II RR benefits are fully exempt.

Nebraska: Tier I and II RR benefits are fully exempt.

New Jersey: Exclusion is \$15,000 (single); \$10,000 (MFS) or

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\$20,000 (MFJ) for annuitants 62+ or disabled, according to SS guidelines. Pension and other retirement income exclusions are eliminated for taxpayers with New Jersey gross income over \$100,000. An additional \$3,000 (\$6,000 joint) can be deducted if ineligible for SS and RR. All residents 65+ receive a \$1,000 personal exemption. Under New Jersey's three-year rule, annuities are not taxed until total employee contributions to civil service retirement have been recovered.

New Mexico: Exemptions for all residents 65+ or blind: \$8,000 for those with AGI less than \$18,000; exemption reduces as income increases—no exemptions above \$51,000 (MFJ), \$25,500 (MFS) and \$28,500 (single).

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 available to persons 59-1/2+. Also, SS benefits exempt from New York state and local tax.

North Carolina: Exclusion of up to \$4,000 retirement income from a government source, if you did not have five years of creditable service as of August 12, 1989; 65+ receive an additional \$750 (single) or \$1,200 (\$600 each for a couple if both 65+) to the regular standard deduction.

North Dakota: Pension exclusion up to \$5,000, reduced by any SS benefits, is available only on the state's ND-2 individual tax form. No exclusion is offered on the ND-1 individual tax form.

Ohio: Graduated retirement income credit ranging from \$0 for annuities less than \$500 to \$200 for annuities exceeding \$8,000. \$50 tax credit per return for residents 65+. Military pension income is exempt.

Oklahoma: Civil service retirement in lieu of SS exclusion is 40% for CSRS retirees. Federal civil service and Oklahoma government retiree exclusion of \$10,000. Military retiree exclusion is 75% of benefits or \$10,000, whichever is greater. \$10,000 other pensions exclusion with modified AGI limit: \$62,500 (single) or \$125,000 (joint). Additional \$1,000 exemption for 65+, under certain income limits, or legally blind.

Oregon: Taxpayers 62+ may qualify for retirement income credit. All SS and RR are exempt. All medical expenses are deductible for those 62+ and who itemize deductions. Additional

standard deduction for 65+: \$1,200 (single, HH); \$1,000 each spouse 65+ (MFJ, MFS and QW). Credit for long-term care insurance premiums.

South Carolina: \$3,000 retirement deduction at any age; \$10,000 for 65+. \$15,000 deduction for each taxpayer 65+ by end of tax year against any South Carolina taxable income (reduced by \$10,000 retirement deduction above). SS and RR benefits are not taxed.

South Dakota: No tax on unearned income such as interest, dividends, etc.

Tennessee: Persons 65+ are tax-exempt, if total annual income, from any and all sources, is \$16,200 or less (single) or \$27,000 or less (joint, no matter which spouse is 65+). "Hall income tax" does not apply to income from any type of annuity.

Utah: Taxpayers 65+ may be entitled to a retirement credit of up to \$450 subject to income limitations. 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. The credit is subject to income limitations. See http://incometax.utah.gov/credits_retirementincome.php.

Virginia: Individuals who were age 65 on January 1, 2004, deduction of \$12,000. Individuals who reached age 65 after January 1, 2008, are eligible for a deduction of \$12,000, subject to income limitations based on individual's federal AGI. Deduction is reduced by \$1 for each \$1 that the federal AGI exceeds \$50,000 (single) or \$75,000 (MFJ or MFS). You can calculate VA state age deduction at www.tax.virginia.gov/site.cfm?alias=agedeductioncalculator. Personal exemption of \$930, additional \$800 exemption if 65+ or blind. SS and Tier I RR benefits are exempt. Long-term care premiums are eligible for deduction.

West Virginia: \$2,000 pension exclusion. Residents 65+ may exclude a total of \$8,000, including the \$2,000 pension exclusion.

Wisconsin: SS and RR are exempt. In addition to exemption for benefits from an account established before 1964, for taxable years beginning in 2002 and after, all retirement payments received from the U.S. government that relate to the Coast Guard, the commissioned corps of the National Oceanic and Atmospheric Administration or the commissioned corps of the Public Health Service are exempt from Wisconsin income tax. An additional personal exemption of \$250, if 65+.

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