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Testimony of Representative Tom Reynolds
Select Committee on Veterans' Affairs
February 10, 2011

HB 5273, An Act Exempting Military Retirement Pay from the State Income Tax

Senator Maynard, Representative Hennessey, and distinguished members of the Select Committee on Veterans' Affairs, I am pleased to testify on HB 5273, An Act Exempting Military Retirement Pay from the State Income Tax.

I request that this bill be amended to include the concept contained in HB 6154, An Act Concerning Income Tax Exemptions for Former Members of the Armed Forces Collecting Federal Civil Service Pensions, which the committee did not raise. This bill changes the definition of eligible taxpayers who can receive the 50% income tax deduction for military retirement pay.

Public Act 05-251, Section 71, modified the definition of "Connecticut Adjusted Gross Income" to create a new subtraction modification related to military retirement income. It reads "...to the extent properly included in gross income for federal income tax purposes, fifty per cent of the income received from the United States government as retirement pay for a retired member of (I) the Armed Forces of the United States, as defined in Section 101 of Title 10 of the United States Code; or (II) the National Guard, as defined in Section 101 of Title 10 of the United States Code." This provision became applicable to income years starting on or after January 1, 2008.

This statute requires eligible taxpayers to meet one of the two service criteria referenced above and also receive "military retirement pay" from the U.S. Department of Defense as listed on Form W-2. I have learned from veterans in my district that some retirees of "uniformed" and military services who wore the uniform of an armed service are being denied this benefit.

Real Life Example #1:

My constituent served 20 years in the US Navy fulfilling the requirement for receiving military retirement pay. He chose to continue his service to our nation by working 18 years for the US Department of Defense in a civilian capacity. When this occurs the federal government combines the military and civilian service into a single civilian pension, thus making the veteran ineligible for the state income tax benefit by our law's definition. (Note: the bill would only make this veteran eligible for the state tax benefit for the military portion of this retirement pay.)

Real Life Example #2:

My constituent served 30 years in the US Public Health Service. During his entire career he wore the uniform of the US Coast Guard, subject to 24/7 duty call, running medivacs, lowered onto ships to provide medical services, participating in Haitian immigrant operations, responding to environmental disasters at sea, serving aboard cutters, and providing routine medical care to active duty military. When this occurs the federal government considers his career to be in a "uniformed service," not the "armed forces," thus making the veteran ineligible for the state income tax benefit by our law's definition.

As one of the co-authors of Connecticut's military retirement pay income tax exemption law, I am confident it was not our legislative intent to exclude those individuals who spent their careers wearing the uniform of our armed forces as in the scenarios described above.

If Connecticut's military installations are to survive a future round of base closures, we must continue to enhance our standing as a "military friendly" state that values the presence of the US military and its retirees. Our tax policy is one of the most important and visible ways to demonstrate this commitment.

Thank you for considering the inclusion of this modification to existing state tax law.