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# Military Retirement Pay Taxation

If your retirement pay is based on age or length of service, it is taxable and must be included in your income as a pension.

However, there are many states that don't tax retirement pay of military retirees: Alabama, Alaska, Florida, Hawaii, Illinois, Kansas, Kentucky, Louisiana, Massachusetts, Michigan, Mississippi, Nevada, New Hampshire, New Jersey, New York, North Carolina, Oregon, Pennsylvania, South Dakota, Tennessee, Texas, Washington, Wisconsin, and Wyoming.

*The following is a list of veterans' benefits that are not taxable:*

a. Education, training, and subsistence allowances. Educational benefits cover high-tech and vocational-technical programs, correspondence courses, certification tests, apprenticeship/job training, and flight training. Many states offer veterans' benefits which include educational grants

and scholarships, and special exemptions or discounts on fees and taxes, home loans, and veterans' homes.

b. Disability compensation and pension payments for disabilities paid either to veterans or to their families. Disability compensation is paid for a combat-related injury or sickness that results directly from armed conflict; takes place while engaged in extra-hazardous service; takes place under conditions simulating war, including training exercises; and is caused by an instrumentality of war. Disability compensation is excluded for injuries resulting directly from a terrorist or military action. A terrorist action is one that is directed against the United States or any of its allies. A military action is one that involves the Armed Forces of the United States and is a result of actual or threatened violence or aggression. It does not include training exercises.

c. Rehabilitative program payments. This includes VA payments to hospital patients and resident veterans for their services under the VA's therapeutic or rehabilitation programs.

d. Grants for homes designed for wheelchair living.

e. Grants for motor vehicles for those who lost their sight or the use of their limbs.

f. Veterans' insurance proceeds and dividends under the National Service Life

Insurance Act of 1940 paid either to veterans or their beneficiaries, including the proceeds of a veteran's endowment policy paid before death.

g. Interest on insurance dividends left on deposit with the Veterans' Administration. If an individual uses accumulated dividends to buy additional life insurance, neither the dividends nor the paid-up insurance is taxable.

h. Qualified long-term care benefits. This was the result of President George W. Bush's signing the Military Tax Relief Act of 2003.

i. Benefits under a dependent-care assistance program; and

j. Burial services, death gratuity payments up to \$3,000 for survivors, travel expenses to the burial site, and any dislocation costs following death are not taxable.

It should be noted that concurrent receipt may be taxable in the same manner as your retirement pay, but combat-related special compensation (CRSC) pay is not taxable.

For further information on military pensions, veterans' benefits, exceptions, and extra regulations, consult the section "Taxable and Non Taxable Income" in Publication 525 of the *Internal Revenue Service Manual*, 2004 edition. You can access the publication by going to the Web site [www.irs.gov](http://www.irs.gov). Another excellent resource is the Web site [www.military.com](http://www.military.com).