

**First Regular Session
Seventy-third General Assembly
STATE OF COLORADO**

INTRODUCED

LLS NO. 21-0343.01 Esther van Mourik x4215

HOUSE BILL 21-1113

HOUSE SPONSORSHIP

Bradfield,

SENATE SPONSORSHIP

(None),

House Committees

State, Civic, Military and Veterans Affairs
Finance
Appropriations

Senate Committees

A BILL FOR AN ACT

101 **CONCERNING THE INCOME TAX DEDUCTION FOR MILITARY**
102 **RETIREMENT BENEFITS.**

Bill Summary

(Note: This summary applies to this bill as introduced and does not reflect any amendments that may be subsequently adopted. If this bill passes third reading in the house of introduction, a bill summary that applies to the reengrossed version of this bill will be available at <http://leg.colorado.gov>.)

The starting point for determining state income tax liability is federal taxable income. This number is adjusted for additions and subtractions (deductions) that are used to determine Colorado taxable income, which amount is multiplied by the state's income tax rate.

Income earned from pensions or annuities, including military retirement benefits, can be considered income for purposes of the state's

Shading denotes HOUSE amendment. Double underlining denotes SENATE amendment.
Capital letters or bold & italic numbers indicate new material to be added to existing statute.
Dashes through the words indicate deletions from existing statute.

income tax. In Colorado, current law provides an income tax deduction that subtracts from federal taxable income amounts received from pensions or annuities for individuals who are 55 years or older. For individuals who are 55 to 64, that benefit is capped at \$20,000 per income tax year. For individuals who are 65 or older, that benefit is capped at \$24,000 per income tax year. This existing benefit applies to pensions or annuities received, among other things, from service in the uniformed services of the United States. The bill does not change this current tax benefit.

In 2018, the general assembly enacted a separate temporary income tax deduction through the income tax year commencing on or after January 1, 2023, that subtracts from federal taxable income amounts received from military retirement benefits for individuals who are under 55 years old. This additional deduction for military retirements benefits is currently capped as follows:

- \$7,500 for the income tax year commencing on or after January 1, 2020, but before January 1, 2021;
- \$10,000 for the income tax year commencing on or after January 1, 2021, but before January 1, 2022; and
- \$15,000 for income tax years commencing on or after January 1, 2022, but before January 1, 2024.

The bill makes modifications to the existing tax deduction for military retirement benefits for individuals who are under 55 years old by:

- Extending the number of years the temporary income tax deduction is available by 10 years; and
- Increasing the maximum benefit to \$20,000 for income tax years commencing January 1, 2023, and for each income tax year thereafter.

1 *Be it enacted by the General Assembly of the State of Colorado:*

2 **SECTION 1.** In Colorado Revised Statutes, 39-22-104, **amend**
3 (4)(y)(I)(C) and (4)(y)(I)(D); and **add** (4)(y)(I)(E) and (4)(y)(III) as
4 follows:

5 **39-22-104. Income tax imposed on individuals, estates, and**
6 **trusts - single rate - legislative declaration - definitions - repeal.**

7 (4) There shall be subtracted from federal taxable income:

8 (y) (I) For income tax years commencing on or after January 1,
9 2019, but prior to January 1, 2024, an amount equal to a qualified

1 individual's military retirement benefits included in federal adjusted gross
2 income, but not to exceed the following amounts:

3 (C) Ten thousand dollars for income tax years commencing on or
4 after January 1, 2021, but before January 1, 2022; ~~or~~

5 (D) Fifteen thousand dollars for income tax years commencing on
6 or after January 1, 2022, but before ~~January 1, 2024~~ JANUARY 1, 2023; OR

7 (E) TWENTY THOUSAND DOLLARS FOR INCOME TAX YEARS
8 COMMENCING ON OR AFTER JANUARY 1, 2023, BUT BEFORE JANUARY 1,
9 2035.

10 (III) THE GENERAL ASSEMBLY HEREBY FINDS AND DECLARES THAT
11 THE TAX EXPENDITURE IN THIS SUBSECTION (4)(y) IS INTENDED TO
12 PROVIDE TAX RELIEF FOR CERTAIN INDIVIDUALS, NAMELY MILITARY
13 RETIREES. THE GENERAL ASSEMBLY FURTHER FINDS AND DECLARES THAT:

14 (A) THERE IS LITTLE CONSISTENCY AMONG THE FIFTY STATES
15 REGARDING THE TAXATION OF MILITARY RETIREMENT BENEFITS;

16 (B) MILITARY RETIREES ARE BEING ADVISED TO FIND OUT HOW
17 MUCH OF THEIR HARD-EARNED PENSIONS WILL BE TAXED IN WHAT STATES
18 BEFORE PUTTING DOWN THEIR RETIREMENT ROOTS;

19 (C) WHILE COLORADO DOES NOT FALL INTO THE TEN STATES
20 IDENTIFIED IN A RECENT PUBLICATION AS THE LEAST-FRIENDLY INCOME
21 TAX STATES FOR MILITARY PENSIONS, COLORADO IS ALSO NOT ON THE LIST
22 OF THE BEST STATES. THAT IS BECAUSE COLORADO STILL TAXES, AS
23 INCOME, A PORTION OF MILITARY RETIREES' BENEFITS.

24 (D) SUPPORT FOR MILITARY RETIREES IN COLORADO IS OF UTMOST
25 IMPORTANCE IN ORDER TO HONOR THE SACRIFICE AND SERVICE OF
26 VETERANS AND TO CREATE AN INCENTIVE FOR MORE VETERANS TO MAKE
27 THEIR POST-MILITARY HOMES IN THE STATE; AND

1 (E) IN ORDER TO MEASURE THE EFFECTIVENESS OF THIS TAX
2 EXPENDITURE, AND THE MODIFICATIONS TO THE TAX EXPENDITURE
3 ENACTED IN HOUSE BILL 21-____, THE GENERAL ASSEMBLY AND THE
4 STATE AUDITOR SHOULD MEASURE WHETHER OR NOT MILITARY RETIREES
5 ARE BENEFITING FROM THE TAX EXPENDITURE SET FORTH IN THIS
6 SUBSECTION (4)(y), AND BY HOW MUCH.

7 **SECTION 2. Act subject to petition - effective date.** This act
8 takes effect at 12:01 a.m. on the day following the expiration of the
9 ninety-day period after final adjournment of the general assembly; except
10 that, if a referendum petition is filed pursuant to section 1 (3) of article V
11 of the state constitution against this act or an item, section, or part of this
12 act within such period, then the act, item, section, or part will not take
13 effect unless approved by the people at the general election to be held in
14 November 2022 and, in such case, will take effect on the date of the
15 official declaration of the vote thereon by the governor.