

Military retirees younger than 55 and living in Colorado will enjoy their first military retirement pay exemption when they file their 2019 tax year income taxes.

A bill (HB18-1060) created a phased-in, partial tax exemption for military retirees under the age of 55. The 2019 Tax Year specifies a state income tax exemption for \$4,500 in military retirement pay. With the existing Colorado income tax rate of 4.36%, most of our youngest military retirees will enjoy up to \$203 in lower state income taxes for 2019.

Assuming the tax rate stays stable, the phase-in exemption gradually increases as follows:

- Tax Year 2020: \$7,000 (up to \$324 tax reduction per military retiree)
- Tax Year 2021: \$10K (up to \$463 tax reduction per military retiree)
- Tax Year 2022: \$15K (up to \$695 tax reduction per military retiree).

This income tax exemption sunsets after five years, so there is a need to renew or make permanent before Tax Year 2014.

To file for the exemption, military retirees will use lines 5 and 6 on Form DR 0104AD, the schedule for handling subtractions for income for individuals. Instructions in the individual income tax booklet will explain how to take the subtraction, according to Josh Pens, Director of Colorado's Office of Tax Policy Analysis. Additional guidance on how to file for the exemption is available at <https://www.colorado.gov/pacific/tax/fyi-publications-income-tax>. Look specifically for: FYI Income 21: [Military Service Members](#); FYI Income 25: [Pension/Annuity Subtraction](#)

Why is the military retirement pay tax exemption only available for under 55? Colorado has an existing retirement pay (including social security) income tax exemption for all persons - civilian or military - aged 55 and over. An analysis of Colorado's military retirees showed declining numbers in younger than 55 military retirees, increasing numbers in military retirees over 55. To minimize the fiscal impact on the State's General Fund, the UVC advocated for a bill that targeted under age 55 retirees and showed where this age group - second careers, working spouses, etc. - brings an almost 500% return-on-investment in state and local taxes and fees.