

## The Pension Benefit Exclusion -- Frequently Asked Questions

### What is the pension benefit exclusion?

A law enacted by Congress in 1957 that allowed retired military personnel and civil servants to subtract \$3000 from their pension income when they filed D.C. tax returns.

### What happened to the pension benefit exclusion?

The pension exclusion was repealed by the D.C. City Council in 2014 to help subsidize a new, lower tax bracket on income from \$40,001 to \$60,000. The rate on this tax bracket was lowered from 8.5 percent to 7 percent in 2015 and will be 6.5 percent starting in 2016.

### Who is affected by repeal of the pension benefit exclusion?

All retired (age 62 or older) DC police, firefighters, teachers and all other DC civil servants; all federal retirees and all members of the armed forces receiving military pensions. These taxpayers can no longer deduct \$3000 in income when they calculate their DC taxes. This amounts to a tax increase.

### Who decided to repeal the pension benefit exclusion?

Eliminating the pension benefit exclusion was one of several changes to the District's tax code recommended by a blue-ribbon panel, the D.C. Tax Revision Commission, chaired by former Mayor Anthony Williams. The D.C. City Council enacted most of the commission's recommendations in a budget bill passed in 2014. The changes became effective on January 1, 2015.

### Why is this issue being raised now?

The decision to repeal the pension exclusion benefit was not widely reported or publicized. Many seniors did not know the pension exclusion had been repealed until they filed their 2015 tax returns in the spring of 2016. In the Tax Revision Commission's Final Report, the recommendation to repeal the pension exclusion is listed on page 13 as one of several "expenditures" to be eliminated:

#### *Broaden the individual income tax base by eliminating expenditures*

The Commission recommended eliminating four tax expenditures to broaden the income tax base.

These expenditures are:

- Low-income credit
- District government employee first-time homebuyer credit
- Long-term care insurance deduction
- District and federal government pension exclusions

The complete Tax Commission Report may be found at the following link:

<http://media.wix.com/ugd/ddda66eb2ae0d8b86a4c9c86eae90501c36aa-ddda66eb2ae0d8b86a4c9c86eae90501c36aa.pdf>

### How did the Tax Commission Report treat some upper income taxpayers?

The Commission thought about eliminating the exemption for interest earned on out-of-state bonds, but decided not to do it, even though the Commission found that this exemption benefits "high-income residents who choose this form of investment." Tax Revision Commission Report at p.14. The

Commission made this even though keeping the blanket exemption "runs counter to the Commission's goals of fairness."

### **Are there any efforts to restore the pension benefit exclusion?**

Yes, a coalition has been formed to petition Council members, testify at hearings, notify affected taxpayers and garner support from organizations.

### **Who is part of the Coalition?**

The current members of the Coalition to Restore D.C.'s pension benefit exclusion are:

Penn-Branch Citizens/Civic Association	
Federation of Citizens Associations	Mary A. Collins, Washington Teachers Union
Baptist Ministers Conference of DC and Vicinity	Retiree Chapter
VFW, DC Chapter	Margaret Hicks, PhD, CPA
National Association of Retired Federal Employees, DC Chapter	Del Robinson, MBA, CPA
Isaac McRae, president, I. McRae, Inc.	Blacks in Government (BIG)
AARP, Ward 5 Chapter 2414	

Outreach continues to all individuals and groups affected by the loss of the pension benefit exclusion.

### **How do other states treat retirement income?**

Among the 41 states with a broad-based income tax, 36 offer exclusions retirement income or give seniors a tax credit. For instance, grant a tax credit aimed at seniors. Maryland, for instance, excludes up to \$29,000 of public and private pension income from taxation and also exempts \$10,000 of military retiree pay, a general retirement income exclusion, or a tax credit targeted at the elderly. For a list of how other states treat retirement income, see the April 2015 report on this issue by the National Conference of State Legislatures at the link below.

<http://www.ncsl.org/documents/fiscal/StateTaxOnPensions2015update.pdf>

### **How can I help to restore the pension annuity exclusion?**

There are many ways you can help:

- Contact your DC Council representatives (for your ward and at-large) and ask them to restore the pension annuity exclusion. Contact Congresswoman Eleanor Holmes-Norton and ask her support for Federal employees in restoring the Pension Annuity exclusion.
- Join our Coalition and receive email updates
- Invite Coalition representatives to speak to your club or neighborhood association

### **How can I contact the Coalition?**

We welcome your outreach to the Coalition at [info@restoredcpensionbenefit.com](mailto:info@restoredcpensionbenefit.com).

***TOGETHER WE CAN RESTORE THE PENSION BENEFIT EXCLUSION***