



Equal Tax Treatment for **ALL** Government Retirees

The Bailey Settlement and North Carolina's Government Employees

In November 1999, in **Bailey vs. State of North Carolina**, the North Carolina Supreme Court decided that federal, state and local government retiree pension income must be taxed in the same manner - and that all those retirees who were vested in a qualifying retirement system by August 12, 1989 would not be taxed on their retirement benefits.

However, as a result the NC legislature changed the tax law: Those who did not have the requisite service would be subject to the state tax laws. As an example, the retirement benefits of a military officer retiring with 20 years of service in 1989 are exempt from state taxation, while those of an officer serving in the same role and retiring now is not. **Same service. Inequitable treatment.**

The 4th Branch - a coalition of government employee and retiree organizations committed to leveling the playing field in North Carolina for **ALL** government retirees through fair taxation - is working to change the law so that all public retirees are treated the same by extending the Bailey settlement to all. To bolster our case, the 4th Branch commissioned a study that shows the many economic advantages to the state of such an extension, which include:

- For every \$1 a government retiree saves in state income tax, North Carolina accrues \$2.5 in economic benefits. Allowing ALL government retirees to deduct state, local or federal retirement benefits from their adjusted gross income is good policy.
- Without the need to save for retirement, government retirees direct most of their income BACK into the local economy which equals more sales tax revenue.
- New retirees would be attracted to North Carolina with no taxation of government benefits. Most buy homes - and about 20 percent are new housing which generates jobs directly and spending.
- Retirees use fewer public services. Without their own children in school, property taxes from just two retiree households can support one school child in their community.
- Most government retirees are motivated to volunteer in their communities. Based on our recent study, volunteer activities and skill contributions were worth nearly \$150 million per year to the state.