



Indiana Department of Revenue

Indiana Government Center • 100 N. Senate Ave. Indianapolis, IN 46204 • dor.in.gov

Income Tax Information Bulletin #6

Subject: Civil Service Annuity Adjustment and Military Retirement or Survivor's Benefit Deduction

Publication Date: June 2025

Effective Date: January 1, 2025

References: IC 6-3-2-3.7; IC 6-3-2-4

Replaces Bulletin #6, dated March 2023

Disclaimer: Information bulletins are intended to provide nontechnical assistance to the general public. Every attempt is made to provide information that is consistent with the appropriate statutes, rules, and court decisions. Any information that is not consistent with the law, regulations, or court decisions is not binding on either the department or the taxpayer. Therefore, the information provided herein should serve only as a foundation for further investigation and study of the current law and procedures related to the subject matter covered herein.

Summary of Changes

Aside from technical, nonsubstantive changes, this bulletin has been updated to reflect 2025 legislation that amended the deductions listed within this bulletin to include the United States Space Force, the United States Public Health Service Commissioned Corps, and the National Oceanic and Atmospheric Administration Commissioned Officer Corps as of January 1, 2025.

Introduction

The purpose of this bulletin is to provide guidance concerning the civil service annuity adjustment, which is a deduction for a portion of a federal civil service annuity, and the deduction for military retirement pay or survivor's benefits received as a result of an individual's active or reserve service in the armed services.

Civil Service Annuity Adjustment

To qualify for the civil service annuity adjustment, the taxpayer must be at least 62 years old at the close of the tax year and have received a civil service annuity included in the taxpayer's adjusted gross income while a resident of Indiana. The individual's surviving spouse also qualifies for the deduction but does not have to be age 62 or older to qualify.

The allowable adjustment is equal to the federal civil service annuity received up to a maximum of \$8,000 for 2015 and \$16,000 for 2016 and thereafter, minus the total amount of Social Security

and tier 1 and tier 2 railroad retirement benefits received. If an individual is a resident both of Indiana and of another state, the adjustment will be prorated by the portion of the annuity received while an Indiana resident.

Example #1: During 2019 a full-year Indiana resident who was 66 years old received a civil service annuity of \$17,000. This person also received Social Security retirement benefits of \$1,300. The taxpayer received no other income during the year.

The taxpayer would be entitled to a civil service annuity adjustment of \$14,700, computed by subtracting the \$1,300 Social Security retirement benefits from the first \$16,000 of civil service annuity received.

Military Service Deduction for Military Retirement or Survivor's Benefits

A deduction is allowed for military retirement pay or survivor's benefits received as a result of the individual's active or reserve service in the armed services. As of January 1, 2025, this includes the United States Space Force, the United States Public Health Service Commissioned Corps, and the National Oceanic and Atmospheric Administration Commissioned Officer Corps.

For taxable years beginning before January 1, 2018, to qualify for the military service deduction for military retirement or survivor's benefits, the taxpayer or surviving spouse must be at least 60 years of age on the last day of the tax year and have received military retirement or survivor's benefits while a resident of Indiana. The allowable adjustment is the amount of military or survivor's benefits received while a resident of Indiana and included in adjusted gross income. The maximum allowable deduction is \$5,000.

For taxable years beginning after December 31, 2017, the maximum allowable deduction for military retirement or survivor's benefits otherwise includible in Indiana adjusted gross income is increased to \$6,250. In addition, the minimum age requirement for qualification has been eliminated. This deduction is in addition to the \$5,000 deduction for which taxpayers are otherwise entitled for certain military service income under IC 6-3-2-4(a)(1).

For taxable years beginning after December 31, 2018, the maximum allowable deduction for military retirement or survivor's benefits will increase for each of four taxable years. The deduction will equal the lesser of the benefits or \$6,250 plus a percentage of the benefits in excess of \$6,250. For 2019, the percentage will be 25 percent. For 2020, the percentage will be 50 percent. For 2021, the percentage will be 75 percent. For 2022 and later, the percentage will be 100 percent.

Example #2: Taxpayer receives \$20,000 in military retirement benefits in 2019. Taxpayer's deduction will be \$6,250 plus 25 percent of \$13,750 (the amount in excess of \$6,250), for a total deduction of \$9,688. For 2020, the deduction will increase to \$13,125 (\$6,250 plus 50 percent of \$13,750), and so forth.

If you have any questions concerning this bulletin, please contact the Tax Policy Division at taxpolicy@dor.in.gov.

A handwritten signature in black ink that reads "M. Kevin Gulley". The signature is written in a cursive, flowing style.

M. Kevin Gulley
Commissioner
Indiana Department of Revenue