Department of Legislative Services

2014 Session

FISCAL AND POLICY NOTE

House Bill 479 (Delegate Eckardt, *et al.*)
Ways and Means

Income Tax - Military Retirement Income - Health Care Practitioners

This bill allows military retirement income to qualify for the State pension exclusion if the individual is at least 50 years old and is a health care practitioner licensed by the State and employed in a county in which the Department of Health and Mental Hygiene (DHMH) provides financial incentives to promote access to medical care in rural areas. DHMH is required by December 1 of each year to submit to the Comptroller a list of counties that qualified during the year.

The bill takes effect July 1, 2014, and applies to tax year 2014 and beyond.

Fiscal Summary

State Effect: General fund revenues may decrease beginning in FY 2015 due to additional military retirement income being exempted. Assuming 100 individuals qualify for the exemption each year, State revenues decrease by $118,800 annually. Expenditures are not affected.

(in dollars)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GF Revenue	($118,800)	($118,800)	($118,800)	($118,800)	($118,800)
Expenditure	0	0	0	0	0
Net Effect	($118,800)	($118,800)	($118,800)	($118,800)	($118,800)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local income tax revenues may decrease beginning in FY 2015 due to additional retirement income being exempted. Under the assumption above, local revenues decrease by $77,600 annually. Expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law/Background: Maryland law provides a pension exclusion subtraction modification for individuals who are at least age 65 or who are totally disabled. Up to a specified maximum amount of taxable pension income ($27,800 for 2013) may be exempt from tax. The maximum exclusion allowed is indexed to the maximum annual benefit payable under the Social Security Act and is reduced by the amount of any Social Security payments received. Military retirement income exempted under the subtraction modification cannot be counted toward the State pension exclusion.

Social Security benefits and benefits received under the federal Railroad Retirement Act are totally exempt from the Maryland income tax, even though they may be partly taxable for federal income tax purposes. In addition to the special treatment of Social Security and other retirement income, other income tax relief is provided to senior citizens regardless of the source of their income. In addition to the regular personal exemption available to all taxpayers, an additional exemption amount of $1,000 may be claimed by an elderly or blind individual.

Chapter 226 of 2006 expanded a $2,500 military retirement income subtraction that was previously limited to enlisted military members with a federal adjusted gross income of $22,500 or less. Chapter 226 allows an individual to exempt the first $5,000 of military retirement income from State and local taxation if the retirement income resulted from service in an active or reserve component of the U.S. Armed Forces or in the Maryland National Guard. Under Chapter 226, retirees from active duty with the Commissioned Corps of the Public Health Service, National Oceanic and Atmospheric Administration (NOAA), or the Coast and Geodetic Survey qualified for the subtraction modification, but only if separated from service after July 1, 1991. Chapters 552 and 553 of 2007 eliminated this restriction and allowed all of the individuals described previously to qualify for the subtraction modification, beginning in tax year 2007, without regard to the date of separation from employment.

According to the Defense Manpower Data Center (DMDC), 50,504 military retirees received a total of $118.3 million in retirement income from the Department of Defense in September 2012. This includes individuals who served in the Army (including the Maryland National Guard), Navy, Marines, and Air Force. On an annualized basis, this retirement income totaled $1.42 billion. A small portion of this amount includes retirees who receive disability payments. Disability payments resulting from active service in the U.S. Armed Forces, NOAA, Public Health Service, or the foreign service are not taxable for State income tax purposes because those payments are exempt from federal taxation. In addition, DMDC reports that 1,316 Coast Guard retirees and 7,071 military and Coast Guard survivors received retirement income in September 2012.

According to the Office of Commissioned Corps Force Management Information System, 762 Maryland residents who retired from the Commissioned Corps of the Public Health Service received a total of $52.1 million, or an average of $68,300, in retirement income during 2005.

A health care practitioner is typically defined (per § 1-301 of the Health Occupations Article and § 19-114 of the Health-General Article) as a person who is licensed, certified, or otherwise authorized under the Health Occupations Article to provide health care services. **Exhibit 1** shows the total number of licensed health care practitioners in the State during fiscal 2013.

Exhibit 1
Total Number of Active Licensees
Regulated by the Health Occupations Boards
Fiscal 2013

Acupuncture	996
Audiologists, Hearing Aid Dispensers, and Speech-Language Pathologists	4,277
Chiropractic and Massage Therapy Examiners[1]	3,164
Dental Examiners	15,011
Dietetic Practice	1,643
Nursing[1]	92,806
Occupational Therapy	3,378
Optometry	865
Pharmacy	21,836
Physical Therapy Examiners	6,865
Physicians	42,042
Podiatric Medical Examiners	490
Professional Counselors and Therapists[1]	3,913
Psychologists	3,485
Social Workers	13,275
Total	**214,046**

[1]Includes only licensed individuals under the board. There are also many other certified or registered individuals under chiropractic, nursing (certified nursing assistants = 131,737 and certified medication technicians = 80,830), and professional counselors.
Source: Governor’s Budget Books, FY 2015; Department of Legislative Services

The Health Systems and Infrastructure Administration within DHMH administers two workforce development programs which provide financial incentives in order to promote access to medical care:

- *State Loan Repayment Program (SLRP):* This federally funded program provides loan repayment to physicians practicing in family medicine, internal medicine, obstetrics/gynecology, and pediatrics. Applicants must be practicing in a federally designated Health Professional Shortage Area (HPSA). HPSAs are further divided into primary care, dental, and mental designations and again into geographic, low-income, and Medicaid designations. Applicants must be in a primary care HPSA and psychiatrists must be in a mental HPSA.

- *Maryland Loan Assistance Repayment Program for Physicians (MLARP):* Jointly administered with the Maryland Higher Education Commission, this State-funded program also provides loan repayment to physicians practicing in family medicine, internal medicine, obstetrics/gynecology, and pediatrics. Applicants must also be in a HPSA or in a federally designated Medically Underserved Area (MUA) or Medically Underserved Population (MUP). If an area applies unsuccessfully for designation, the Governor may designate the area a MUA/MUP.

HPSA and MUA/MUP designations are by county and census tract. In some cases the entire county qualifies for designation and in others only certain census tracts. Of the 18 State-designated rural counties, only Carroll County is not currently designated under one of the programs described above.

State Revenues: Additional retirement income may be exempted beginning in tax year 2014. As a result, general fund revenues will decrease beginning in fiscal 2015. However, the amount of the revenue loss cannot be reliably estimated and depends on the number of military retirees in the State who work as licensed health care practitioners, receive a military pension, and meet the requirements of the bill.

Given the average military pension in Maryland was $28,100 in September 2012, general fund revenues will decrease in fiscal 2015 by about $1,200 for each qualifying military retiree. **Exhibit 2** lists the total estimated revenue losses depending on the number of retirees who qualify.

Exhibit 2
Projected Impact on State and Local Revenue

Number of Qualifying Retirees	State	Local
100	($118,800)	($77,600)
250	(297,100)	(193,900)
500	(594,200)	(387,800)

Local Revenues: Local income tax revenues decrease by about 3% of the total net State subtraction modification claimed in tax year 2014. Exhibit 2 lists the potential local income tax revenue impact beginning in fiscal 2015.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Defense Manpower Data Center, Department of Health and Mental Hygiene, Comptroller’s Office, Department of Legislative Services

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mc/jrb

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