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Senate Bill 574 - Income Tax - Subtraction Modification - Military Retirement Income
Position: Support
Senate Budget and Taxation Committee
February 10, 2021

Secretary George W. Owings, III
Erin Chase, Deputy Legislative Office, Governor's Office

Chair Guzzone, Vice Chair Rosapepe, Members of the Committee,

Senate Bill 574 expands Maryland's current subtraction modification for our veterans' military retirement income. The bill phases-in, over two years, a 100% exemption of state income taxes applied to a military veteran's retirement income regardless of age.

Current law allows a veteran under the age of 55 to have the first \$10,000 exempted from state income tax, and those over the age of 55 have the first \$15,000 exempted. Under Senate Bill 574, in tax year 2021 the greater of 50% or \$15,000 of an individual's military retirement income would be exempt from income tax, and beginning in tax year 2022, 100% of that income would be exempt from the state's income tax.

There are currently 21 other states that exempt military retirement income from the state's income tax, not including the nine states that do not have a state income tax. Passing this legislation will bring Maryland in line with the majority of other states, and will help the state become more competitive in attracting and retaining retirees.

Members of the military typically become eligible for the military pension benefits after 20 years of service, but many service members continue to work after their retirement from the military, often in private sector industries with jobs that are hard to fill due to the level of technical experience required. According to a 2019 study conducted by the Regional Economic Studies Institute at Towson University, each year occupations in Maryland's defense industry face a shortage of 7,217 qualified workers, particularly for computer and mathematical, architecture and engineering, and science occupations. Military retirees offer a unique skill set that can be utilized to fill these critical roles.

Undeniably, we owe our veterans a great deal of gratitude, and this is one way we can thank them for their service, while also encouraging military retirees to live, work, raise a family, and retire in Maryland.

For these reasons, the Administration respectfully requests a favorable report for Senate Bill 574.

