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January 13, 2025

Honorable Members of the Senate Budget and Taxation Committee
Maryland General Assembly
11 Bladen Street
Annapolis, MD 21401

RE: Senate Bill 99 - Income Tax - Subtraction Modification - Military Retirement Income (Keep Our Heroes Home Act)

Dear Chair and Members of the Committee:

The Maryland Society of Accounting and Tax Professionals, Inc. (MSATP) represents the voices of over 2,000 tax and accounting professional members. Our members, who are tax and accounting professionals, serve over 700,000 Maryland residents. We must respectfully express our opposition to Senate Bill 99, despite its laudable goal of supporting military retirees.

While we deeply respect and value our military retirees, we have significant concerns about this legislation from a tax policy and fiscal responsibility perspective. The bill's dramatic increase in tax exemptions - from the current maximum of \$20,000 to \$40,000 - would create an unsustainable reduction in state tax revenues at a time when Maryland faces numerous fiscal challenges. Our analysis suggests this could significantly impact the state's ability to fund essential services and maintain fiscal stability.

The implementation timeline raises serious administrative concerns. The July 1, 2025 effective date with immediate application to the 2025 tax year creates a mid-year implementation challenge. The two-phase approach over consecutive years will require multiple system updates and taxpayer education cycles. The rapid increase could create confusion during tax preparation and planning.

Furthermore, this legislation raises fundamental tax equity issues. It creates a substantial disparity between military and other forms of retirement income. The flat exemption amount, regardless of total retirement income, disproportionately benefits higher-income retirees. The bill lacks income-based phase-outs that could better target relief to those most in need.

From a practical administrative perspective, our members have identified numerous problematic aspects. Mid-year implementation will complicate income calculations for 2025, and rapid changes in consecutive years will increase the risk of filing errors. The broad definition of military service may create verification challenges. The immediate \$25,000 exemption represents a significant revenue reduction, and the subsequent increase to \$40,000 compounds the fiscal impact, with no offsetting revenue sources identified to maintain state services.



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The system modifications required would be substantial. Tax preparation software will require multiple updates, state systems will need rapid modifications, and training materials will need frequent revisions. The long-term implications are also concerning, as this creates pressure for similar treatment of other retirement income, may lead to demands for additional increases in future years, and could impact Maryland's bond rating and borrowing costs.

While we strongly support our military retirees, we believe a more measured approach would better serve Maryland's interests. We recommend phasing in increases over a longer period, including income-based limitations, considering a more modest maximum exemption, aligning implementation with the tax year calendar, and including offsetting revenue measures.

For these reasons, MSATP cannot support Senate Bill 99 in its current form. We stand ready to work with the committee to develop alternative approaches that would provide targeted support for military retirees while maintaining sound tax policy and fiscal responsibility.

Respectfully submitted,

Giavante' Hawkins
Maryland Society of Accounting and Tax Professionals

