

**Department of Legislative Services**  
2012 Session

**FISCAL AND POLICY NOTE**  
**Revised**

House Bill 532  
Ways and Means

(Delegate Cardin, *et al.*)

**Income Tax Exemption - Military Health Care Pensions - Health Care Workforce Shortage**

This bill expands the existing military retirement income subtraction modification by exempting 50% of specified military retirement income for any individual who commits to living and working in the State for a period required by the Comptroller and works in a health care field identified as having a health care workforce shortage. In order to qualify, the individual must have federal adjusted gross income (FAGI) of \$65,000 or less. The Comptroller’s Office is required to adopt regulations, in consultation with the Department of Health and Mental Hygiene (DHMH) and the Governor’s Workforce Investment Board, in order to implement the provisions of the bill.

The bill takes effect July 1, 2012, and applies to tax years 2013 and beyond.

**Fiscal Summary**

**State Effect:** General fund revenues decrease beginning in FY 2014. Assuming 250 individuals qualify for the exemption, State revenues decrease by \$121,300 annually. Expenditures are not affected.

(in dollars)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
GF Revenue	\$0	(\$121,300)	(\$121,300)	(\$121,300)	(\$121,300)
Expenditure	0	0	0	0	0
Net Effect	\$0	(\$121,300)	(\$121,300)	(\$121,300)	(\$121,300)

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

**Local Effect:** Potential decrease in local government revenues beginning in FY 2014 due to additional retirement income being exempted. Assuming 250 individuals qualify for the exemption, local government revenues decrease by \$76,600 annually. Local expenditures are not affected.

**Small Business Effect:** None.

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## **Analysis**

**Current Law:** 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. Under Chapter 226, an individual may 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 armed forces of the United States 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. Chapter 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.

Maryland law also provides a pension exclusion subtraction for individuals who are at least age 65 or who are totally disabled. Up to a specified maximum amount of taxable pension income (\$26,300 for 2011) 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. Each individual age 65 or older can also earn more income without being required to file taxes.

**Background:** According to the Defense Manpower Data Center (DMDC), 48,757 military retirees received a total of \$109.6 million in retirement income from the Department of Defense in September 2010. This includes individuals who served in the Army (including the Maryland National Guard), Navy, Marines, and Air Force. On an annualized basis, the retirement income totaled \$1.3 billion. This amount includes

retirees who receive disability payments. Disability payments resulting from active service in the 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 1,486 Coast Guard retirees and 5,828 military and Coast Guard survivors received retirement income during 2009.

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 \$68,312, in retirement income during 2005.

Chapter 379 of 2006 established the Statewide Commission on the Shortage in the Health Care Workforce within DHMH. In its 2007 mid-year report, the commission determined that:

- A gap between the projected demand and the reported supply (from Maryland postsecondary health care programs) is identified for 18 of the top 25 demand health care occupations. Substantial gaps of more than 40% are identified for seven of the top 25 demand occupations.
- Although improvements have been made since the same analysis was conducted in 2004 (gaps were identified for 23 of 25 of the top occupations), there will be significant implications if there is not a supply of trained graduates for Maryland's health care occupations.

Chapter 441 of 2007 required the Secretary of Health and Mental Hygiene, with the Governor's Workforce Investment Board and appropriate health care provider regulatory boards, to make findings regarding barriers under the Health Occupations Article to licensing or certifying individuals with training and experience in providing health care through military service that is equivalent to training and experience required for licensure or certification. A report issued as a result of Chapter 441 made several recommendations, including:

- review health care professional standards to eliminate barriers to attracting military personnel to State civilian jobs;
- identify military health care experience, training, and coursework that fulfills industry occupational standards; and
- develop a marketing campaign and provide incentives to attract retired military personnel.

**State Revenues:** Additional retirement income will be exempted beginning in tax year 2013. As a result, general fund revenues will decrease beginning in fiscal 2014.

However, the amount of the revenue loss cannot be reliably estimated and depends on the percentage of military retirees in the State who are qualified to work as health care workers, what percentage would opt to work and fulfill the requirements of the bill, and what percentage will meet the income requirements under the bill. Given that the average military pension received in 2010 was about \$27,000, an individual will typically qualify only if the individual's additional income (including compensation from the eligible health care job) in the year was less than \$38,000.

General fund revenues decrease in fiscal 2014 by an estimated \$510 for each qualifying retiree under age 65 and by \$260 for each retiree age 65 and over. **Exhibit 1** lists the total estimated revenue losses given different levels of qualifying retirees. It is assumed that one-tenth of eligible individuals are age 65 and over.

Individuals under age 65 would benefit on average by a greater amount since they do not qualify for the State pension exclusion, which can be used to exempt military retirement income above and beyond any amount subtracted under the current military retirement subtraction modification. Revenue losses will also depend on the extent of time an individual would receive the tax benefit, as it is not clear if an individual would lose the value of the tax benefit if the individual previously qualified for the tax benefit but works in a health care field that the Comptroller determines no longer has a health care workforce shortage.

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**Exhibit 1**  
**State and Local Revenue Loss from HB 532**

<u>Number of Qualifying Retirees</u>	<u>Revenue Loss</u>	
	<u>State</u>	<u>Local</u>
50	\$24,300	\$15,300
100	48,500	30,600
250	121,300	76,600
500	242,500	153,200
750	363,800	229,800
1,000	485,000	306,300

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**Local Revenues:** Local income tax revenues decrease by about 3% of the total net State subtraction modification claimed in tax year 2013. Exhibit 1 lists the potential local income tax revenue impact in fiscal 2014.

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## **Additional Information**

**Prior Introductions:** Similar legislation was introduced in the 2009 and 2010 sessions. HB 722 of 2010 received a hearing in the House Ways and Means Committee, but no further action was taken. HB 536 of 2009 received a hearing in the House Ways and Means Committee, but was subsequently withdrawn.

**Cross File:** None.

**Information Source(s):** Defense Manpower Data Center, Department of Defense (Office of Actuary), Department of Health and Mental Hygiene, National Oceanic and Atmospheric Administration, Office of Commissioned Corps Force Management Information System, Comptroller's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - February 17, 2012  
mc/jrb Revised - Clarification - February 19, 2012

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