

Department of Legislative Services
 Maryland General Assembly
 2022 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 315 (Delegate Novotny)
 Ways and Means

Income Tax - Subtraction Modification - Military Retirement Income

This bill expands the existing military retirement income tax subtraction modification by increasing to \$20,000 the maximum amount of retirement income that can be excluded. In order to qualify for the increased subtraction modification, the individual must be at least 55 years of age. **The bill takes effect July 1, 2022, and applies to tax year 2022 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$5.2 million in FY 2023 due to additional retirement income being exempted. Future year revenues reflect projected growth in eligible retirement income. Expenditures are not affected.

(\$ in millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
GF Revenue	(\$5.2)	(\$5.5)	(\$5.7)	(\$5.9)	(\$6.1)
Expenditure	0	0	0	0	0
Net Effect	(\$5.2)	(\$5.5)	(\$5.7)	(\$5.9)	(\$6.1)

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

Local Effect: Local revenues decrease by \$3.4 million in FY 2023 and by \$4.0 million in FY 2027. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law:

State Pension Exclusion – All Eligible Individuals

Maryland law provides a pension exclusion (in the form of a subtraction modification) for individuals who are at least 65 years old or who are totally disabled. Under this subtraction modification, up to a specified maximum amount of taxable pension income (\$34,300 in 2021) 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 (Social Security offset). Military retirees who are at least age 65 or are totally disabled can qualify and claim the State pension exclusion for retirement income that is not excluded under the military retirement income subtraction.

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.

Military Retirement Income

Chapter 226 of 2006 expanded a \$2,500 military retirement income tax subtraction modification that was previously limited to enlisted military members with federal adjusted gross income of \$22,500 or less. An individual can exempt certain military retirement income from State and local taxation if the retirement income resulted from service (1) in an active or reserve component of the U.S. Armed Forces; (2) as a member of the Maryland National Guard; or (3) as an active duty member with the Commissioned Corps of the Public Health Service, the National Oceanic and Atmospheric Administration, or the Coast and Geodetic Survey. The subtraction modification can also be claimed by a surviving spouse or ex-spouse.

Legislation enacted in the 2015 and 2018 sessions expanded the maximum value of the subtraction modification to:

- \$15,000 for individuals who are at least age 55; and
- \$5,000 for all other individuals.

State Revenues: Additional retirement income can be exempted beginning in tax year 2022. As a result, State revenues will decrease by \$5.2 million in fiscal 2023. **Exhibit 1** shows the projected State and local revenue loss from exempting additional military retirement income.

Exhibit 2
Projected State and Local Revenue Loss
Fiscal 2023-2027
(\$ in Millions)

	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
State	(\$5.2)	(\$5.5)	(\$5.7)	(\$5.9)	(\$6.1)
Local	(3.4)	(3.6)	(3.7)	(3.8)	(4.0)
Total	(\$8.7)	(\$9.0)	(\$9.4)	(\$9.7)	(\$10.1)

The estimated impact of exempting additional retirement income is based on the number of retirees who claimed the subtraction modification in tax year 2020, adjusted for the provisions of the bill.

Local Revenues: Local income tax revenues decrease by about 3% of the total net State subtraction modifications claimed. Local revenues will decrease by \$3.4 million in fiscal 2023 and by \$4.0 million in fiscal 2027 as shown in Exhibit 1.

Additional Information

Prior Introductions: None.

Designated Cross File: None..

Information Source(s): Comptroller's Office; Department of Legislative Services

Fiscal Note History: First Reader - February 8, 2022
fnu2/hlb

Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510