

Department of Legislative Services
Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 767

(Delegate Griffith, *et al.*)

Ways and Means

Income Tax - Subtraction Modification - Military Retirement Income (Military Pension Tax Freedom Act)

This bill enhances the existing military retirement income tax subtraction modification by exempting all military retirement income from Maryland income tax by tax year 2027. The change is phased in over five tax years, beginning with tax year 2023. **The bill takes effect July 1, 2023.**

Fiscal Summary

State Effect: General fund revenues decrease by an estimated \$5.6 million in FY 2024. The FY 2024 State budget as introduced assumes a \$33.0 million general fund reduction for additional tax relief for military retirement income. Future years reflect phased increases in the value of the military retirement income subtraction and projected growth in eligible retirement income. Expenditures are not affected.

(\$ in millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GF Revenue	(\$5.6)	(\$11.4)	(\$21.6)	(\$34.5)	(\$48.8)
Expenditure	0	0	0	0	0
Net Effect	(\$5.6)	(\$11.4)	(\$21.6)	(\$34.5)	(\$48.8)

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

Local Effect: Local revenues decrease by an estimated \$3.6 million in FY 2024 and \$31.2 million in FY 2028. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Bill Summary: The maximum value of the subtraction modification for military retirement income is altered to be the following amounts, without regard to age:

- for tax year 2023, the greater of \$15,000 or 20% of the amount of military retirement income received by an individual during the tax year;
- for tax year 2024, the greater of \$15,000 or 40% of the amount of military retirement income received by an individual during the tax year;
- for tax year 2025, the greater of \$15,000 or 60% of the amount of military retirement income received by an individual during the tax year;
- for tax year 2026, the greater of \$15,000 or 80% of the amount of military retirement income received by an individual during the tax year; and
- for tax year 2027 and beyond, all military retirement income received by an individual during the tax year.

Current Law:

Military Retirement Income Tax Subtraction

An individual may exclude from Maryland adjusted gross income certain military retirement income, including death benefits, received as a result of (1) induction into the U.S. Armed Forces for training and service under the Selective Training and Service Act of 1940 or a similar subsequent act; (2) membership in an active or reserve component of the U.S. Armed Forces; (3) membership in the Maryland National Guard; or (4) active duty with the commissioned corps of the Public Health Service, the National Oceanic and Atmospheric Administration, or the Coast and Geodetic Survey.

The maximum value of the subtraction modification is \$15,000 for an individual age 55 or older and \$5,000 for an individual younger than age 55.

As discussed below, an individual who is at least age 65, is totally disabled, or whose spouse is totally disabled may qualify for and claim the standard State pension exclusion for retirement income that is not excluded under the military retirement income subtraction.

Maryland Pension Exclusion

Under the Maryland pension exclusion, an individual who is at least age 65, who is totally disabled, or whose spouse is totally disabled may subtract certain taxable pension and retirement annuity income from federal adjusted gross income for purposes of determining Maryland adjusted gross income. The maximum value of the subtraction is indexed to the

maximum annual benefit payable under the Social Security Act (\$34,300 for 2022) and is reduced by the amount of any benefit payments received under the Social Security Act or Railroad Retirement Act (“Social Security offset”).

Senior Tax Credit

Chapters 3 and 4 of 2022 establish a nonrefundable tax credit against the State income tax for a resident who is age 65 or older and whose federal adjusted gross income does not exceed \$100,000 (\$150,000 if filing jointly or as a surviving spouse or head of household). The amount of the tax credit is equal to (1) \$1,000 or (2) \$1,750 for surviving spouses, heads of household, and joint filers if both spouses are at least age 65. The credit is available beginning tax year 2022. For a tax year in which the September general fund estimate issued by the Board of Revenue Estimates for the current fiscal year is more than 7.5% below the March general fund estimate issued in the same year, the value of the tax credit is reduced for specified taxpayers.

Other Tax Relief for Seniors

Social Security benefits and benefits received under the federal Railroad Retirement Act are totally exempt from the Maryland income tax, though they may be partly taxable for federal income tax purposes. 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, individuals age 65 and older may claim an additional exemption of \$1,000.

State/Local Revenues: As discussed above, the bill exempts all military retirement income from Maryland income tax by tax year 2027; the change is phased in over five tax years beginning with tax year 2023. Thus, State general fund revenues and local income tax revenues decrease beginning in fiscal 2024, due to increases in the value of subtraction modifications claimed against Maryland income tax.

Exhibit 1 displays the bill’s estimated effect on State and local revenues in fiscal 2024 through 2028. As shown in the exhibit, in fiscal 2024, State general fund revenues decrease by an estimated \$5.6 million, and local income tax revenues decrease by an estimated \$3.6 million. Future years reflect phased increases in the value of the military retirement income subtraction and projected growth in eligible retirement income. As noted above, the fiscal 2024 State budget as introduced assumes a \$33.0 million general fund reduction for additional tax relief for military retirement income.

Exhibit 1
Projected State and Local Revenue Loss
Fiscal 2024-2028
(\$ in Millions)

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
State	(\$5.6)	(\$11.4)	(\$21.6)	(\$34.5)	(\$48.8)
Local	(3.6)	(7.3)	(13.8)	(22.1)	(31.2)
Total	(\$9.2)	(\$18.7)	(\$35.4)	(\$56.6)	(\$80.0)

Source: Comptroller's Office; Department of Legislative Services

This estimate is based on State and federal income tax data for tax year 2020, including information reported on Maryland form 502R and federal form 1099-R, as analyzed by the Comptroller's Office.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

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

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km/hlb

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