

Department of Legislative Services
 Maryland General Assembly
 2024 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 952 (Delegate Rogers, *et al.*)
 Ways and Means

Income Tax - Subtraction Modification - Military Retirement (Keep Our Heroes Home Act)

This bill enhances the value of the military retirement income tax subtraction modification beginning in tax year 2024 and exempts all military retirement income from Maryland income tax by tax year 2026. **The bill takes effect July 1, 2024, and applies to tax year 2024 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$3.0 million in FY 2025. Future years reflect phased increases in the value of the subtraction modification and projected growth in eligible military retirement income. The Comptroller’s Office can implement the bill’s changes with existing budgeted resources.

(\$ in millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GF Revenue	(\$3.0)	(\$9.8)	(\$37.1)	(\$38.4)	(\$39.6)
Expenditure	0	0	0	0	0
Net Effect	(\$3.0)	(\$9.8)	(\$37.1)	(\$38.4)	(\$39.6)

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

Local Effect: Local revenues decrease by \$1.9 million in FY 2025, \$6.4 million in FY 2026, \$24.2 million in FY 2027, and similar amounts annually thereafter. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Bill Summary: The bill provides for the following, phased enhancements to the value of the existing income tax subtraction modification for military retirement income:

- In tax year 2024, the maximum value of the subtraction modification for individuals younger than age 55 is increased from \$12,500 to \$20,000, consistent with the existing maximum value of the subtraction modification for individuals age 55 and older.
- In tax year 2025, the maximum value of the subtraction modification for all eligible taxpayers is the greater of \$20,000 or 50% of the amount of military retirement income received by an individual during the tax year.
- In tax year 2026 and beyond, the value of the subtraction modification is equal to all military retirement income received by an individual during the tax year.

Current Law/Background:

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.

Chapters 613 and 614 of 2023 increased the maximum value of the subtraction modification from \$5,000 to \$12,500 for individuals younger than age 55 and from \$15,000 to \$20,000 for individuals age 55 and older beginning in tax year 2023. 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 Maryland's standard 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

(\$36,200 for 2023) and is reduced by the amount of any benefit payments received under the Social Security Act or Railroad Retirement Act (“Social Security offset”).

Social Security benefits and benefits received under the federal Railroad Retirement Act are totally exempt from Maryland income tax, though they may be partly taxable for federal income tax purposes. Other income tax relief provided to seniors include an additional exemption of \$1,000 for individuals age 65 and older (in addition to the regular personal exemption) as well as the senior tax credit for qualifying taxpayers age 65 and older.

State/Local Revenues: State general fund revenues and local income tax revenues decrease beginning in fiscal 2025 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 2025 through 2029. As shown in the exhibit, in fiscal 2025, State general fund revenues decrease by an estimated \$3.0 million, and local income tax revenues decrease by an estimated \$1.9 million. Future years reflect phased increases in the value of the subtraction modification and projected growth in eligible military retirement income.

Exhibit 1
Effect on State and Local Revenues
Fiscal 2025-2029
(\$ in Millions)

	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
State Effect	(\$3.0)	(\$9.8)	(\$37.1)	(\$38.4)	(\$39.6)
Local Effect	(1.9)	(6.4)	(24.2)	(25.0)	(25.8)
Total Effect	(\$4.9)	(\$16.2)	(\$61.3)	(\$63.4)	(\$65.4)

Source: Department of Legislative Services

Due to taxpayer confidentiality requirements, the Department of Legislative Services does not have access to income tax return data. However, the Comptroller’s Office advises that the subtraction modification for military retirement income was claimed on more than 1% of all resident tax returns in tax year 2020. The above estimate is based on an analysis of military retirement system beneficiary and payment data published by the U.S. Department of Defense for federal fiscal 2018 to 2022 and assumes that (1) the number of Maryland residents receiving nondisability military retired pay and survivor benefits remains

constant at federal fiscal 2022 levels (the latest year for which data is available) throughout the estimate period and (2) eligible taxpayers continue to claim the subtraction modification, as modified under the bill, at a rate consistent with tax year 2020 utilization. Military retired pay and survivor benefits are subject to annual cost-of-living adjustments based on the increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W); thus, this estimate assumes that eligible military retirement income grows in accordance with the CPI-W as forecasted by Moody's Analytics. Due to data limitations, this estimate does not account for the impact of the senior tax credit, as enacted by Chapters 3 and 4 of 2022, on the income tax liability of affected subtraction modification claimants.

Additional Information

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

Designated Cross File: None.

Information Source(s): Comptroller's Office; U.S. Department of Defense; Moody's Analytics; Department of Legislative Services

Fiscal Note History: First Reader - February 9, 2024
km/hlb

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