

Department of Legislative Services
 Maryland General Assembly
 2025 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 60 (Delegate Rogers, *et al.*)
 Ways and Means

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

This bill enhances the existing military retirement income tax subtraction modification by increasing, to \$25,000 for tax year 2025 and \$40,000 for tax year 2026 and beyond, the maximum amount of military retirement income received by an individual that may be subtracted from federal adjusted gross income, regardless of the individual’s age. **The bill takes effect July 1, 2025.**

Fiscal Summary

State Effect: General fund revenues decrease by an estimated \$11.3 million in FY 2026. Future years reflect the phased increase in the value of the military retirement income subtraction and projected growth in eligible retirement income. Expenditures are not affected.

(\$ in millions)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
GF Revenue	(\$11.3)	(\$25.2)	(\$26.2)	(\$27.2)	(\$28.3)
Expenditure	0	0	0	0	0
Net Effect	(\$11.3)	(\$25.2)	(\$26.2)	(\$27.2)	(\$28.3)

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

Local Effect: Local revenues decrease by an estimated \$6.9 million in FY 2026, \$15.3 million in FY 2027, and similar amounts annually thereafter. Local expenditures are not affected.

Small Business Effect: None.

Analysis

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.

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. 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 (\$39,500 for 2024) and is reduced by the amount of any benefit payments received under the Social Security Act or Railroad Retirement Act ("Social Security offset").

The pension exclusion is limited to income received from an "employee retirement system," which is defined as a plan (1) established and maintained by an employer for the benefit of its employees and (2) qualified under § 401(a), § 403, or § 457(b) of the Internal Revenue Code. This includes defined benefit and defined contribution pension plans, 401(k) plans, 403(b) plans, and 457(b) plans. Public safety employee retirement income that is excluded under the public safety employee retirement income subtraction modification is not taken into account for purposes of the standard pension exclusion.

Other Tax Relief for Retirees and Seniors

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 and Local Revenues: General fund revenues and local income tax revenues decrease beginning in fiscal 2026 due to increases in the value of subtraction modifications claimed against the personal income tax. **Exhibit 1** displays the bill’s estimated effect on State and local revenues in fiscal 2026 through 2030. As shown in the exhibit, in fiscal 2026, State general fund revenues decrease by an estimated \$11.3 million, and local income tax revenues decrease by an estimated \$6.9 million. Future years reflect the additional phased increase in the value of the subtraction modification for tax year 2026 and projected growth in eligible military retirement income.

Exhibit 1
Effect on State and Local Revenues
Fiscal 2026-2030
(\$ in Millions)

	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>
State Effect	(\$11.3)	(\$25.2)	(\$26.2)	(\$27.2)	(\$28.3)
Local Effect	(6.9)	(15.3)	(15.9)	(16.5)	(17.2)
Total Effect	(\$18.2)	(\$40.5)	(\$42.1)	(\$43.8)	(\$45.5)

Note: Numbers may not sum to total due to rounding.

Source: Comptroller’s Office; Department of Legislative Services

This estimate is based on analysis by the Comptroller’s Office of State and federal income tax return data for tax year 2021, including information reported on Maryland Form 502SU and federal form 1099-R.

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See SB 553 and HB 554 of 2023 as introduced.

Designated Cross File: SB 99 (Senator Salling) - Budget and Taxation.

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

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js/hlb

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