Statement of the Maryland Federation of National Active and Retired Federal Employees

On Senate Bill 278,

The Retirement Tax Reduction Act of 2020

Good Afternoon, Chairman Guzzone and Members of the Budget and Taxation Committee. My name is Robert Doyle and I am the Vice-Chair of the State Legislation Committee of the Maryland Federation of NARFE, the National Active and Retired Federal Employees Association. The mission of NARFE is to promote the general welfare of current and potential Federal annuitants by advising them with respect to their rights under retirement laws and regulations. We represent approximately 300,000 Federal employees and annuitants living in Maryland.

For many years, the NARFE SLC has advocated for numerous bills which would impact Maryland seniors such as bills on Long Term Care Tax Credits and recent bills supporting the decoupling of Federal and Maryland tax returns to allow MD residents the ability to itemize on MD returns even if they did not itemize on the Federal return. For the benefit of all Maryland retirees, NARFE supports Senate Bill 278, the Retirement Tax Reduction Act of 2020.

We understand that the RTRA will be a phased-in reduction in state tax on retirement income beginning in 2021 with full implementation in 2026. At that time, the bill will eliminate all state tax on the first $50,000 of income for individual retirees with a Federal Adjusted Gross Income (FAGI) of up to $100,000 so retirees with a FAGI of $50,000 or less will pay no Maryland state tax. In the intervening years, there will be phased-in tax reductions each year starting at $10,000 and going up to the full $50,000. In his announcement of the bill, Governor Hogan stated that will result in a cut of almost $1 billion in state taxes for about 230,000 Marylanders over the five year period.[i]

NARFE supports the RTRA as a positive step in making Maryland not only a better place for our native retirees but also a solid choice for outside retirees looking for a worthwhile retirement state.

Governor Hogan, in his statement announcing this Bill, said that “People who have been lifelong Marylanders and have contributed so much, and still have more to offer, are moving to other states for one reason—our state's sky-high retirement taxes. …. This legislation will .... keep tens of thousands of Maryland retirees from being forced to flee our state."[ii]

We agree with his statement, and we offer our comments on the Governor's three points.

First, seniors and others are "moving to other states" - leaving Maryland in significant numbers. There are numerous states which do not tax retirement income, which of course includes the states which have no income tax at all. There are some other states which do not tax the pensions of public service retirees (Federal, state and local) or the pensions of retired military personnel or First Responders.[iii] These states can be attractive destinations for Maryland retirees.

Data from the IRS Statistics of Income (SOI) Division (compiled by USAFacts.org) showed that about $11.6 billion in income moved out of Maryland for the period 2000-2015 (see attached graph). We also looked at the IRS SOI Tax Stats site showing Migration Data for 2017-2018. This site tracks returns showing change of address from one year to the next. For 2017-2018, the report showed migration from Maryland to four popular states for Seniors -- Florida, Delaware, North Carolina and Pennsylvania – as a total of 24,881 returns changed from a Maryland address to an address in one of those four states.[iv] Of course not all the migration was seniors, but it is likely a lot of seniors are represented here.

Second, MD has "sky-high retirement taxes." MD is a high tax state,[v] and recent changes in Federal taxes have made the situation worse for many Marylanders including many seniors whose incomes are fixed by their pensions, or their Social Security benefits or sometimes both. For example, under Federal law the maximum, combined amount of state and local property, income, and sales taxes that can be deducted is now $10,000. Additionally, some Marylanders who take the new higher Federal Standard Deduction and thus do not itemize on the Federal return cannot itemize on their MD return and may feel a larger MD tax bite than before. We note that there have been bills to decouple the Federal and Maryland returns -- SB 486 and HB 788 -- introduced in this session to address this.

Third, retirees are "lifelong Marylanders (who) have contributed so much, and still have more to offer." Seniors are enthusiastic volunteers who devote many hours of work to helping their communities, including school and hospital volunteering. Seniors who may no longer feel hard-pressed to save money will spend it -- not only on the necessities but also on non-necessities (like dining out or home renovations). This spending generates sales tax revenue and additional state revenue on taxes paid by those firms and individuals who are the recipient of senior spending.

It is important to note that personal income taxes provide Maryland with ~ 25 % of its revenue, and any reduction in taxes has to be viewed in light of its total impact on Maryland's economy including federal funds received by Maryland and that are based on census data.

I will finish by offering a rationale which I read recently in a Capital Gazette column by an advocate for tax relief for retired military personnel in Maryland. I believe his rationale for retired military tax relief generally applies to all seniors. I will paraphrase his conclusion by saying "the bottom line is that immediate tax relief for seniors in Maryland is a fiscally sound and viable option to attract and retain valuable individuals — good neighbors who pay their bills, volunteer in the community and have an appreciable level of discretionary income. Other states have learned this and are catching on — losing a little in revenue but building a stronger fiscal base by increasing the number of state taxpayers."[vi]

Whether or not the Maryland State Legislature enacts SB 278 during the current legislative session, we also recommend that the Legislature commission a comprehensive study on the effect of the tax migration of seniors on the overall health of Maryland's economy. NARFE stands ready to assist in such a study in any way we can.

We close by saying keeping seniors in Maryland should be a matter of high priority for Maryland's legislators. For the reasons above, NARFE recommends that the B&T Committee gives a favorable report to SB 278.

Thank you.

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[i] Governor Hogan Announces More Than $1 Billion in Tax Relief for Maryland Retirees, Press Release from the Office of Governor Larry Hogan, January 16, 2020, found at https://governor.maryland.gov/2020/01/16/governor-hogan-announces-more-than-1-billion-in-tax-relief-for-maryland-retirees/
[ii] Ibid.

iii “State Tax Roundup” prepared by National Active and Retired Federal Employees Association, April 2019, found at https://www.narfe.org/pdf/StateTaxRoundup.pdf
iv Found at https://www.irs.gov/statistics/soi-tax-stats-migration-data
v Found at https://www.kiplinger.com/slideshow/taxes/T054-S001-all-50-states-ranked-for-taxes-2019/index.html
vi “Attracting and retaining retired military in Maryland – a must-do list,” Tom Jurkowsky, Capital Gazette, February 1, 2019 found at https://www.capitalgazette.com/opinion/columns/ac-ce-column-jurkowsky-20190201-story.html