NATIONAL ACTIVE AND RETIRED FEDERAL EMPLOYEES
MARYLAND FEDERATION

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

House Ways & Means Committee Hearing, February 16, 2022

On House Bill 499,

Income Tax – Subtraction Modification - Retirement Income

Good Afternoon, Chairwoman Attebeary, and Members of the Ways and Means Committee. My name is Robert M. Doyle, and I am the Vice-Chair of the State Legislative Committee of the Maryland Federation of NARFE, the National Active and Retired Federal Employees Association. Our Committee supports state legislation which promotes the general welfare of our current Federal annuitant senior citizens in Maryland with respect to their rights under tax laws and regulations as well as other state legislation to protect and benefit seniors. We represent approximately 300,000 Federal employees and annuitants living in Maryland. For the continuing benefit of our senior membership as well as all Maryland seniors, we support House Bill 499 sponsored by Delegate Robin L. Grammer, entitled Income Tax – Subtraction Modification - Retirement Income.

For many years, the NARFE SLC has advocated for numerous bills which would impact the taxes paid by 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, and the Administration bills on senior tax relief, such as the Retirement Tax Reduction Act of 2021 last session. In this vein, we offer our support for Delegate Grammer's bill, HB 499.

Maryland now allows a pension exclusion for eligible taxpayers under which you can subtract some of your taxable pension and retirement annuity income from your Federal Adjusted Gross Income (FAGI), after any additions to MD income, to determine your Maryland Adjusted Gross Income (MAGI). While generally employer-sponsored pensions are eligible for the pension exclusion, generally employee-sponsored pensions are not. HB 499 will expand the current pension exclusion eligibility by allowing income from employee-sponsored pension plans to be included as "Qualified Retirement Plans" under the pension exclusion. These include:

1) Retirement plans qualified under sections 401(a), 403, and 457(b), of the Internal Revenue Code (IRC);
2) An Individual Retirement Account (IRA) under section 408 of the IRC;
3) A Roth IRA under section 408(a) of the IRC;
4) A rollover IRA; or
5) A simplified employee pension under section 408(k) of the IRC.

Currently, Maryland law provides a pension exclusion for individuals who are at least 65 years old or who are totally disabled. Under this exclusion, up to a specific maximum amount of taxable pension income ($34,300 per individual for 2021) is exempt from state income tax, by reducing your Federal Adjusted Gross Income and Maryland additions by the amount of your pension income up to the 2021 limit. The maximum 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).

This exclusion was originally enacted to benefit federal employees who prior to 1984, were covered under the Civil Service Retirement System and were not eligible to receive Social Security. Because Maryland does not tax social security, in the 1960's federal employees raised the issue that this was not equitable as they paid taxes on their pensions but retirees who retired on social security did not. The pension exclusion was enacted to remedy this inequity and allowed all retirees (not just federal retirees) to exempt from Maryland tax the amount equal to the maximum social security amount minus any social security received. Since 1984, federal employees are covered by social security and the prior inequity no longer exists.

Besides the expansion of the pension exclusion, Delegate Grammer's bill offers additional tax relief to Maryland seniors. The bill alters the maximum exclusion amount for qualifying individuals to equal (1) $30% of qualified income in tax year 2022; (2) 60% in tax year 2023; and (3) 100% beginning in tax year 2024. The maximum exclusion amount in each year is not reduced by the amount of Social Security payments received as provided under current law.

HB 499 offers fairness to all Maryland retirees by eliminating the pension exclusion penalty currently experienced by many Maryland retirees. Further, HB 499 offers real tax relief to Maryland seniors

We believe that HB 499 -- and other senior tax relief bills –will offer a significant incentive to keep seniors in the state. Governor Hogan, in his 2022 State of the State address, discussed the retiree tax relief as follows:

Our state's sky-high retirement taxes remain the one area where we are still not effectively competing with other states. Over the course of our administration we have been successful in passing targeted retirement tax relief for our military retirees and for our hometown heroes, our law enforcement, fire and rescue, corrections, and emergency personnel. But that's not enough.

The time has come for the General Assembly to finally pass the Retirement Tax Elimination Act to eliminate every single penny of state retirement taxes for everyone, so that Marylanders who have spent their lives working and raising a family here, and contributing so much to our state, can afford to retire here in Maryland near their kids and grandkids.

Each year when I have proposed critical tax relief for seniors, legislators have said we just can't afford it.

Well, with our economy booming and our fiscal health stronger than ever before, we can't afford not to do it.[1]

We agree wholeheartedly with the Governor's statement. Certainly 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

[1] Governor Larry Hogan, 2022 State of the State address at https://governor.maryland.gov/2022/02/02/2022-state-of-the-state/

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.[i] These states can be attractive destinations for Maryland retirees.

IRs data has shown that in recent years, there was 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.[ii] Of course not all the migration was seniors, but it is likely a lot of seniors are represented here.

We also agree that Maryland has “sky-high retirement taxes.” Maryland is a high tax state,[iii] 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 Maryland return and will feel a larger Maryland tax bite than before. We note that Delegate Jason Buckel (and numerous co-sponsors) has introduced in the 2022 House session a bill to decouple the Federal and Maryland returns – HB 839 -- to address this.

Additionally, we want to note that Maryland cannot afford to lose retirees 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.

In prior years, when I testified on the Administration senior tax relief bills, I included in my statement a quote from 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."[iv]

We close by urging that keeping seniors in Maryland should be a matter of high priority for Maryland's legislators. NARFE supports HB 499 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.

For the reasons in our statement, NARFE recommends that the Ways & Means Committee gives a favorable report to HB 499.

Thank you.

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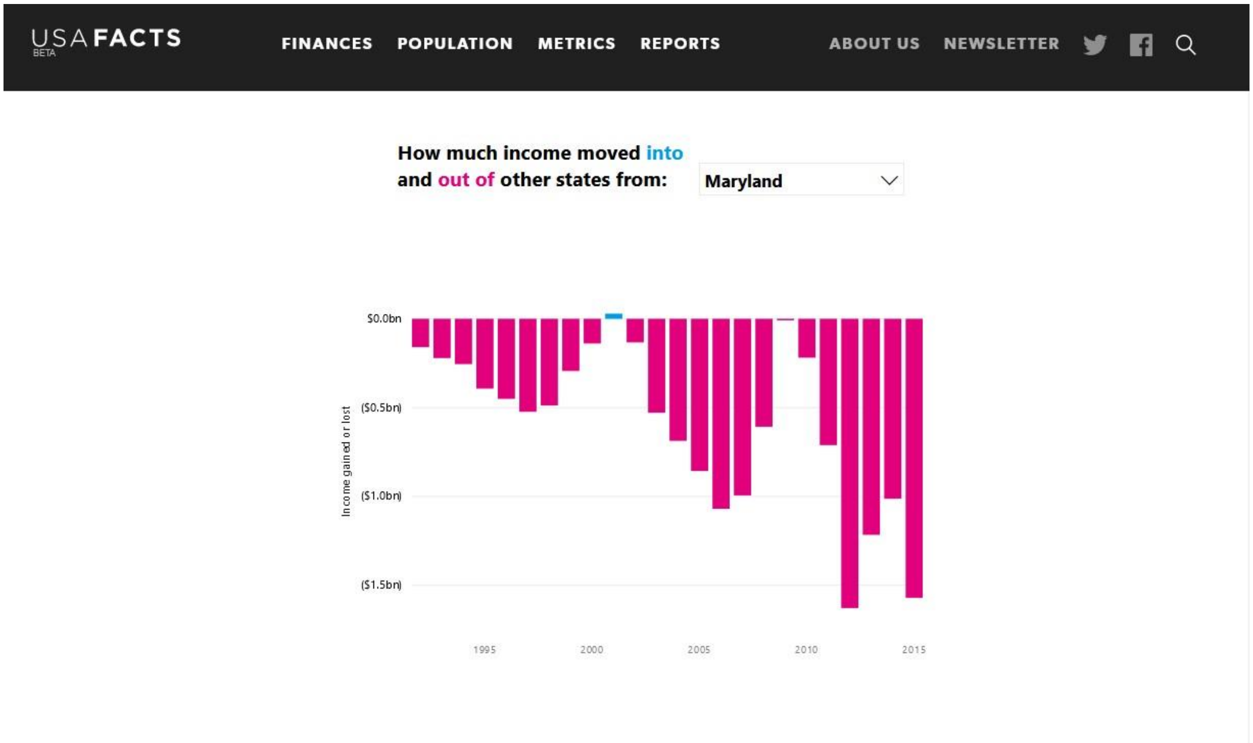
[i] "State Tax Roundup" prepared by National Active and Retired Federal Employees Association, April 2020, found at https://www.narfe.org/pdf/StateTaxRoundup.pdf

[ii] Found at https://www.irs.gov/statistics/soi-tax-stats-migration-data

[iii] Found at https://www.kiplinger.com/slideshow/taxes/T054-S001-all-50-states-ranked-for-taxes-2019/index.html

[iv] "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


USAFACTS
BETA
FINANCES
POPULATION
METRICS
REPORTS
ABOUT US
NEWSLETTER
How much income moved into
and out of other states from:
Maryland
$0.0bn
($0.5bn)
($1.0bn)
($1.5bn)
Income gained or lost
1995
2000
2005
2010
2015