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The Maryland House of Delegates

ANNAPOLIS, MARYLAND 21401

HB 787 Income Tax- Retirement Income Tax Relief Act of 2022

Ways and Means

February 23, 2022

WHAT IS THE PROBLEM WE ARE TRYING TO SOLVE?

Maryland retirees have been some of the hardest hit financially with high inflation, low rates of return on their fixed incomes and high cost of living in Maryland. **Maryland has consistently been ranked one of the worst states to retire for affordability for many years.** According to Wallet Hub we are the 41st worst state to retire and Kiplinger's confirms the same.

Our neighboring states all have improved their rankings but Maryland continues to push Maryland retirees away. As a result, our retirees are choosing to move to more favorable tax states for financial reasons. We want to keep them here in Maryland.

Maryland's high-income tax rate, may take pressure off of sales taxes, but hits retirees on a fixed income hard.

The Legislature has done little to acknowledge and act on the financial stress that faces retirees in Maryland. Considering the low returns of the past decade on fixed income investments and the currently high inflation impacting home electric bills, groceries, RX drug costs, gasoline and costs of maintaining a home, retirees have not been able to enjoy the benefits of our past strong economy.

With a relatively high cost of living, Maryland is also a relatively expensive state in which to retire comfortably. Goods and services in the state are 7.7% more expensive than they are on average nationwide, forcing our retirees to spend more on everyday expenses than the national average.

Housing costs are especially high in Maryland. The typical retirement-age homeowner without a mortgage spends \$602 a month on housing, far more than the comparable \$499 monthly median nationwide.

In Carroll County, we border PA to the north which has no income tax on any retirement income. This amounts to a 10% difference in income taxes when considering state and local income taxes- that is a significant amount for a retiree on a fixed income. Many of our retirees are moving across the border for lower taxes and lower cost of living. This is a net loss to Maryland.

What is Current Law?

Currently, Maryland has a pension exclusion of \$31,100 available to those taxpayers 65 or older, based on the maximum social security payment at retirement age of 65. Also, certain retirees are eligible for a personal exemption of \$3200 and an additional \$1000 exemption on the Maryland return if over the age of 65 (this exemption has not been adjusted for inflation in decades). **Unfortunately, not all Maryland retirees are able to take advantage of the full pension exclusion due to the discriminatory treatment of retirement income in Maryland** (certain retirement plans -IRA, Roth IRA, SEP, IRA rollovers- do not qualify).

WHAT DOES THIS BILL DO?

Hb 787 will exempt the first \$55,000 of all types of retirement income per taxpayer, over the age of 65, from Maryland taxes, this includes Social Security, Railroad Retirement and all income from a qualified income plan. The \$55,000 exemption will be increased to reflect increase in the CPI annually. Any current exemptions i.e. police, veterans will be in addition.

With the current budget surplus that is forecasted will into the future, now is the time to relieve this burden on our retirees.

I enthusiastically support Governor Hogan's retiree tax relief proposal of eliminating taxes on ALL of retirement income, however, we want to be sure there is more than one option to consider to keep more retirees in Maryland. HB 787 is a more modest approach that will give relief to many middle-class retirees and make it easier for them to spend every season of their life in their home state.

Previously, the Legislature has seen fit to give tax breaks for aquaculture oyster floats, energy storage systems, oyster shell recycling, teacher incentives, student debt relief, heritage structure rehabilitation and venison donations, among dozens of other specific special interest tax credits and deductions. **Now is the time to put our retirees on the top of the priority list for tax relief and get Maryland off of the list of worst places in America to retire.**

Let's keep ALL Maryland retirees in Maryland by providing them with the tax treatment they all deserve.

I urge the Committee to take a serious look at the impact of tax current tax policy on Maryland's retirees and consider a favorable report on HB787.