



MARYLAND MILITARY COALITION

Serving Veterans through Legislative Advocacy

January 31, 2023

The Honorable Vanessa Atterbeary
Chair, Ways and Means Committee
Maryland House of Delegates
House Office Building, Room 131
Annapolis, MD 21401

Subject: **Request for FAVORABLE Report with Amendment** – HB 0015 - Income Tax Subtraction Modification – Military and Public Safety Retirement Income

Dear Chair Atterbeary and distinguished members of the Ways and Means Committee:

As Legislative Director of the Maryland Military Coalition (MMC), I write to recommend a **FAVORABLE report with amendment** by the Committee on **HB0015, Income Tax Subtraction Modification – Military and Public Safety Retirement Income**, sponsored by Delegate Mike Rogers (District 32). This bill raises the current subtraction from \$15,000 to \$20,000 for military retired pay for individuals 55 and older. While HB0015 is a step in the right direction, **we ask that the bill be amended to a full exemption of military retired pay with no age restriction**, either all at once or over a three-year phase-in period, as the number of military retirees in the State of Maryland continues to decline, demonstrating that previous incremental subtractions are just not working.

Maryland is Not Competitive When It Comes to the Exemption of Military Retired Pay

The MMC **recommends amending this bill to subtract 100 percent of military retirement income** and that the age restriction for claiming the subtraction be eliminated. We do so for the following reasons:

- Maryland has 20 military facilities supporting chemical and biological defense R&D, military intelligence, cybersecurity, and more.¹ The state is in the top ten for total defense spending (\$26.3 billion, #6), defense spending as a percent of state GDP (5.8%, #7), defense contract spending (\$17.9 billion, #8), number of defense personnel (96,310, #8), and defense personnel payroll (\$8.3 billion, #5).²
- Currently, **38 states fully exempt military retirement income** from their state income tax **with no age threshold**; **23 of those states have fully exempted** military retirement income **since 2018**, the last year Maryland raised its current deduction for individuals 55 and older

¹ <https://open.maryland.gov/industries/military-federal-defense-spending>

² Office of Local Defense Community Cooperation – Defense Spending by State, FY 2021

to \$15,000 (see Attachment 1). Maryland is one of only 11 states that does not fully exempt military retired pay.

- For Tax Year 2023, three of the four states contiguous to Maryland will either fully exempt military retired pay with no age restriction (Pennsylvania, West Virginia) or exempt more than Maryland (Virginia--\$20,000 for 55 and older). On January 11th, the Virginia governor proposed eliminating the tax on military retirement income for veterans regardless of age.³
- According to the Tax Foundation, Maryland ranks 45th out of 50 states for its individual income tax. Only Hawaii (#46), Connecticut (#47), New Jersey (#48), California (#49), and New York (#50) rank lower.⁴

Military Retirees Are Leaving the State of Maryland

The latest federal data indicates that the number of military retirees who receive military retired pay from the Department of Defense has been declining. Others are commuting from out of state because of the current level of exempting military retired pay:

- As of December 31, 2021, there were 52,256 military retirees in Maryland, receiving approximately \$1.820 billion in retirement income annually, or approximately \$34,800 per retiree per year.⁵ The number of military retirees has declined by 472 since the end of 2018 (see Attachment 2).
- Per the Towson study commissioned by the MGA in 2019, taxation of military retired pay is a factor driving military retirees to consider residency and employment in other states.⁶
- A 2016 economic study prepared for the Maryland Department of Commerce showed that the dollar amount of lost civilian payroll revenue was almost \$1.6 million in 2015, from people who work in Maryland, but live outside the state.⁷ While that data hasn't been updated, it's not unreasonable to assume that the amount has grown since then, just due to inflation.

An Age Threshold Related to Any Exemption of Military Retired Pay is a Disincentive for a Military Retiree to Stay in Maryland

Most military retirees range in age from their early 40s to early 50s, depending upon the number of years of service. Many will work in civilian jobs for up to 25 years — second careers with income that would be **fully taxable**. By retaining military retirees in the state and fully exempting their military retired pay, the state can gain tax revenue from their civilian jobs, offsetting the cost of full exemption of military retired pay. However, when a military retiree leaves Maryland because of the way retired

³ governor.virginia.gov/newsroom/news-releases/2023/January/name-979187-en.html

⁴ <https://taxfoundation.org/2023-state-business-tax-climate-index/>

⁵ <https://actuary.defense.gov/>

⁶ Source: *A Study of Employment in the State's Defense Industry*, prepared for the Maryland Departments of Commerce, Labor, and Veterans Affairs, October 7, 2019, Towson University Regional Economic Studies Institute

⁷ <https://commerce.maryland.gov/Documents/ResearchDocuments/MarylandMilitaryInstallationEconomicImpactStudy2015.pdf>, Table B.

pay is currently taxed, the state loses the opportunity to get tax revenue from that person's civilian job for up to 25 years.

The Fiscal Note for HB 0015 Does Not Provide an Accurate Assessment of the Effect on State/Local Revenues of an Increased Exemption of Military Retired Pay

An analysis of the State/Local Revenues section of the Fiscal Note for HB 0015, specifically the **estimates for the anticipated change in the number of eligible military retirement claimants from FY2024 to FY2028, is inconsistent with federal data** regarding the trend in the number of military retirees living in Maryland, referenced above. The table in that section of the Fiscal Note shows that the estimates of the effect on State and Local Revenues from the increase in the military exemption will result in a decline over that five-year period due to “an anticipated increase in the number of eligible claimants.” This statement is inconsistent with the data in Attachment 2, cited above, in that **the number of military retirees in Maryland who are receiving retired pay from the Department of Defense is declining.**

In addition, the **analysis in the State/Local Revenues section neither addresses nor reflects the effect on those revenues as a result of the INCREASE in disposable income that would flow into the state's economy.** The positive impact on Maryland's GDP was a key finding in the Towson study referenced in footnote 6, above, which was commissioned by the Maryland General Assembly. This positive impact is also supported by the high ranking of Maryland with regard to defense spending as a percent of the state's GDP, also cited above.

The Maryland Military Coalition contacted the Department of Legislative Services regarding the estimate of the number of military retirees and the lack of any estimate on state/local revenues resulting from the increase in disposable income over the next five years. The response was that the department was not aware of the source of data cited in Attachment 2, and that the department was not able to estimate and calculate the impact of the additional disposable income on state/local revenues for the next five fiscal years.

As a result of the above discrepancies, we believe the assumptions for the table in the State/Local Revenues section of the Fiscal Note are **not an accurate representation of the fiscal and economic consequences of HB 0015.** Because of this, members of the Ways and Means Committee are considering HB 0015 without receiving a more thorough assessment from relevant sources that are publicly available of the total effect of this legislation.

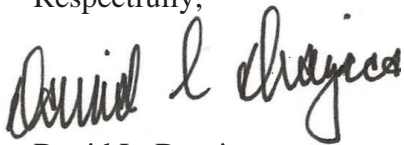
Maryland Military Coalition Request for HB 0015

The Maryland Military Coalition **supports the intent of HB 0015 and recommends that Section 1, 10-207 (q)(2) be amended to subtract 100 percent of military retirement income** from the federal adjusted gross income of a resident to determine Maryland adjusted gross income, **either all at once or over a three-year phase-in period**, and that **the age restriction for claiming this subtraction be eliminated.**

The Maryland Military Coalition is a registered non-profit, non-partisan advocacy organization comprised of prominent Maryland-based veteran and military groups, representing over 150,000 service-connected individuals, including those currently serving, veterans, retirees and their families, caregivers, and survivors. We **strongly support HB 0015** and ask the committee's **favorable support with amendments**.

We want to thank Delegate Mike Rogers for sponsoring this legislation and his strong, continuing support of the uniformed services community in Maryland.

Respectfully,

A handwritten signature in black ink that reads "David L. Dragics". The signature is written in a cursive, slightly slanted style.

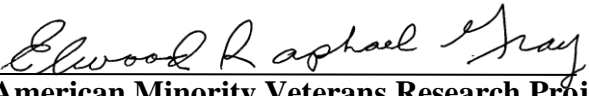
David L. Dragics
COL USA (Ret)
Legislative Director

Attachments (2)

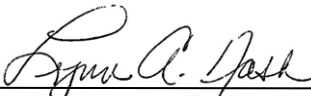
Member Organizations, Maryland Military Coalition


Air Force Sergeants Association


American Military Society

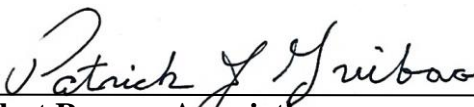

American Minority Veterans Research Project



Association of the United States Navy



Commissioned Officers Association of the
US Public Health Service

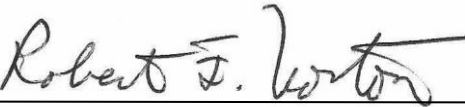

Disabled American Veterans

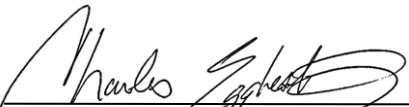

Distinguished Flying Cross Association



Fleet Reserve Association


Jewish War Veterans of the USA


Maryland Air National Guard Retirees'
Association


Military Officers Association of America



Military Order of the Purple Heart



Montford Point Marines of America


National Association for Black Veterans


Naval Enlisted Reserve Association


NOAA Association of Commissioned Officers

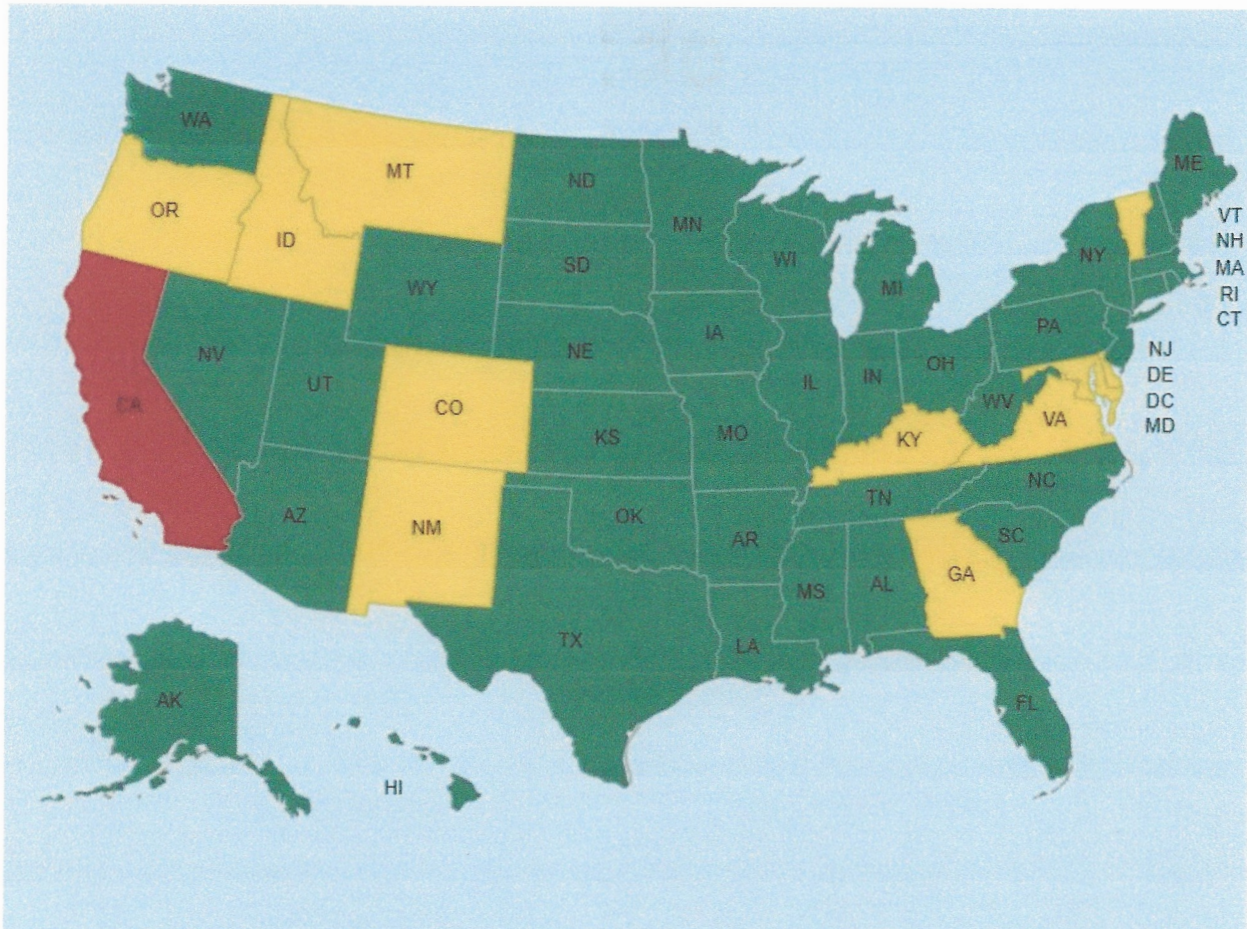

Reserve Organization of America


Society of Military Widows


Veterans of Foreign Wars

States that do ***NOT*** Tax Military Retired Pay

As of January 26, 2023



Map Legend

- **Green:** Both military retired pay (MRP) and Survivor Benefit Plan payments (SBP) are fully exempt from state taxation.
- **Yellow:** MRP and/or SBP receive partial exemption from state taxation.
- **Red:** Neither MRP nor SBP is exempt from state taxation.

Source: MOAA Communications; updated January 26, 2023



MARYLAND MILITARY COALITION

UPDATED JANUARY 2023 LISTINGS

The 50 States and Uniformed Services Retired Pay

As of January 1, 2023, **38 of the 50** states do not tax military retirement pay, and that figure includes the 9 states, marked with asterisks below (*), without any personal income tax: (Table is by date passed)

1. Alaska *	20. NEW North Dakota † ^{SS} (2019)
2. Florida *	21. NEW Hawaii † ^{SS} (2020) All Services
3. Nevada *	22. NEW New Jersey † ^{SS} (2020) (+\$6K Vet ded)
4. New Hampshire *	23. NEW Mississippi † » ^{SS} (2020) All Services
5. South Dakota*	24. NEW Arizona ☒ † ^{SS} (2021) All Services
6. Tennessee*	25. NEW Massachusetts † ^{SS} (2021) All Services
7. Texas*	26. NEW Minnesota ☒ † (2021) All Services
8. Washington*	27. NEW Missouri ☒ † (2021) All Services
9. Wyoming*	28. NEW New York † ^{SS} (2021) All Services
10. Alabama † ^{SS} (1989) All Services	29. NEW Ohio † ^{SS} (2021) All Services
11. Louisiana † ^{SS} (1989) All Services	30. NEW Utah † (2021)
12. Pennsylvania † » ^{SS} (1999) All Services	31. NEW Wisconsin † ^{SS} (2021) All Services
13. Kansas † ^{SS} (2004) All Services	32. NEW Illinois ☒ † » ^{SS} (2022) All Services
14. Michigan ☒ † ^{SS} (prior to 2011)	33. NEW Nebraska † (2022) All Services
15. Maine † ^{SS} (2016)	34. NEW North Carolina † ^{SS} (2022 +USPHS/NOAA)
16. NEW Connecticut † (2018)	35. NEW Oklahoma ☒ ^{SS} (May 26, 2022) All Services
17. NEW West Virginia † (2018) All Services	36. NEW Rhode Island (Jul 21, 2022) Begins TY23
18. NEW Arkansas ☒ † ^{SS} (2019) All Services	37. NEW South Carolina † ^{SS} (May 13, 2022)
19. NEW Indiana † ^{SS} (2019)	38. NEW Iowa ☒ † ^{SS} (2023 ALL Ret. Inc. 55>/Dis.)

* 9 (Nine) States have no personal income tax

☒ Active Duty pay included

† SBP= Military Survivor Benefit Plan. Insurance on up to ½ of the military retirees' "pension" receive monthly upon the death of the sponsor.

» No tax on 401(k), IRA or pension distributions

^{SS} Social Security exempt (includes AL, AZ, AK, CA, DE, GA, HI, IA, ID, IL, IN, KY, LA, ME, MD, MA, MI, MS, NC, NJ, NY, OH, OK, OR, PA, SC, VA, WI, N=28)

Eleven (11) states and the District of Columbia currently tax a portion of a retiree's annual Retired Pay and, in the interest of brevity, only a short explanation of key special provisions is included here (consult individual state tax codes for full details):

Military Retirees and Survivors Maryland -- 2017 to 2021

As of 12/31	Total DoD Retired Receiving Pay from DoD	Total DoD Retired with VA Offset	Total Monthly Pay (\$1000)	Total Annual Pay (\$1000)	Total Survivors	Survivors with DIC Offset	Monthly Pay	Total Annual Pay (\$1000)	Total Retired & Survivors	Annual Change	Retiree Average Annual Pay (\$1000)	Survivor Average Annual Pay (\$1000)
2017	52,673	15,127	\$134,209	\$1,610,508	6,662	1,238	\$7,973	\$95,676	59,335		\$30,576	\$14,361
2018	52,728	14,989	\$138,655	\$1,663,860	6,515	1,223	\$7,982	\$95,784	59,243	(92)	\$31,556	\$14,702
2019	52,820	14,773	\$141,768	\$1,701,216	6,477	1,218	\$8,006	\$96,072	59,297	54	\$32,208	\$14,833
2020	52,666	14,530	\$143,611	\$1,723,332	6,551	1,275	\$8,156	\$97,872	59,217	(80)	\$32,722	\$14,940
2021	52,256	13,991	\$151,696	\$1,820,352	6,479	1,275	\$8,813	\$105,756	58,735	(482)	\$34,835	\$16,323
	-0.90%								Change from 2017 to 2021:	(600)	-1.0%	

The monthly amount of retired pay (in \$1,000) is the amount prior to deductions for tax withholdings and other allotments, but after deductions for Survivor Benefit Plan premiums, waivers/offsets from compensation/award received from the U.S. Department of Veterans Affairs (VA), etc.

Retirees with a VA waiver/offset are those with reduced DoD retired pay due to a VA compensation/award, i.e., after "Concurrent Receipt: benefits are paid.

Retiree and Survivor pay only includes payments from DoD. Payments from the VA for disability compensation/award or Dependency and Indemnity Compensation (DIC) are not included here. Due to NDAA 2020, the DIC offset to Survivor Pay is being phased out over the next year. (Footnote to 12/31/21 data)

Source: <https://actuary.defense.gov/>
Military Retirement subheading; dropdown menu: Congressional Districts Reports, 2017-2021