

Maryland Military Coalition Written Testimony HB 5

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MARYLAND MILITARY COALITION

Serving Veterans through Legislative Advocacy

February 16, 2023

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

Subject: **Request for FAVORABLE Report** – HB 554 - Income Tax – Subtraction
Modification for Military Retirement Income (Keep Our Heroes Home Act)

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

On behalf of the members of the Maryland Military Coalition (MMC) and as its Legislative Director, I write to recommend a **FAVORABLE report** by the Committee on ***HB 554, Income Tax – Subtraction Modification for Military Retirement Income (Keep Our Heroes Home Act)***, sponsored by Speaker Adrienne Jones by request of Governor Moore and by Delegate Mike Rogers. This bill will, over the next two years, raise the amount of military retirement income received by individuals that can be exempted from the Maryland income tax regardless of age.

This bill will make Maryland more competitive with surrounding states by incentivizing military retirees to remain here after retiring from active duty. The MMC strongly supports this bill for the following reasons:

- 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 increasing the exemption of their military retirement income, the state can gain tax revenue from their civilian jobs, offsetting the cost of full exemption of 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.¹ The number of military retirees has declined by 472 since the end of 2018 (see Attachment 1). This bill, if passed and signed into law, will serve to help reverse this trend.

¹ <https://actuary.defense.gov/>

- For Tax Year 2023, three of the four states contiguous to Maryland either fully exempt military retirement income with no age restriction (Pennsylvania, West Virginia) or exempt more than Maryland (Virginia--\$20,000 for 55 and older). Exempting \$25,000 of military retirement income this year, *regardless of age*, and \$40,000 in Tax Year 2024 will exceed that of the Commonwealth of Virginia, making Maryland a more attractive residency option for those retiring from active duty.

HB 554 is a positive step in the right direction, moving our state closer to the 38 other states that currently fully exempt military retirement income from their state income tax (see Attachment 2). The MMC member organizations strongly support not only this legislation but also Governor Moore's aspirational goal of exempting 100 percent of military retirement income—sooner after 2024 rather than later—so that, as he stated, “Maryland should be no state’s farm team.”^{2, 3}

The Maryland Military Coalition **strongly supports** HB 554 and asks for a **FAVORABLE** report from the Ways & Means Committee. Raising the exemption of military retirement income from the state income tax to \$40,000 over the next two years, regardless of age, recognizes the value of the contributions military retirees can and will make to this state’s future growth.

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 want to thank Governor Moore for his commitment to our veterans, and to Speaker Jones and Delegate Mike Rogers for sponsoring this legislation and their strong, support of the uniformed services community in Maryland.

Respectfully,



David L. Dragics
COL USA (Ret)
Legislative Director

Attachments (2)

² <https://governor.maryland.gov/press/pages/Governor-Wes-Moore-Delivers-His-First-State-of-the-State-Address.aspx#:~:text=ANNAPOLIS%2C%20MD%E2%80%94%20Today%2C%20Governor,to%20put%20them%20before%20ourselves.>

³ Maryland Needs to Create an Attractive Tax Environment for Military Retirees, Tom Jurkowsky, Capital Gazette, February 7, 2023, <https://www.capitalgazette.com/opinion/columns/ac-ce-tom-jurkowsky-military-retirees-20230207-c7irntcfgrdbpl2c6zgun6mxcu-story.html>

Member Organizations, Maryland Military Coalition

James P. Monahan
Air Force Sergeants Association

John P. May
American Military Society

Elwood R. Raphael Gray
American Minority Veterans Research Project

A. A.
Association of the United States Navy

Lynn A. Gash
**Commissioned Officers Association of the
US Public Health Service**

Wilbur B. Forbes
Disabled American Veterans

William H. Freedley
Distinguished Flying Cross Association

Patrick J. Guibas
Fleet Reserve Association

Erwin A. Buttrick
Jewish War Veterans of the USA

Steve L. Bloodwin
**Maryland Air National Guard Retirees'
Association**

Robert J. Worton
Military Officers Association of America

Charles E. Spence
Military Order of the Purple Heart

E.
Montford Point Marines of America

M. L. Messer
National Association for Black Veterans

Michael P. Hays
Naval Enlisted Reserve Association

Christian Andreasen
NOAA Association of Commissioned Officers

John S.
Reserve Organization of America

Catherine L. McEraw
Society of Military Widows

M. Blackwell
Veterans of Foreign Wars

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



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):