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FEDERAL BENEFITS EXPERTS
MARYLAND FEDERATION

Statement of the Maryland Federation of National Active and Retired Federal Employees
House Ways and Means Committee Hearing, February 9, 2023
On House Bill 195, Income Tax – Subtraction Modification - Retirement Income

Good afternoon, Chairwoman Atterbeary and members of the Ways and Means Committee. My name is Robert N. Goldberg, and I am testifying on behalf of the State Legislative Committee of the Maryland Federation of the National Active and Retired Federal Employees Association (NARFE). The Maryland NARFE supports legislation which promotes the general welfare of our 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 195 sponsored by Delegate Crosby, entitled "Income Tax – Subtraction Modification - Retirement Income".

For many years, Maryland NARFE has advocated for legislation which impacts 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 Maryland residents the ability to itemize on Maryland returns even if they did not itemize on their Federal return, and bills on senior tax relief. In this vein, we offer our support for Delegate Crosby's bill, HB 195.

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 195 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 2022) 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 2022 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.

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.

Thus, HB 195 offers fairness to all Maryland retirees by eliminating the pension exclusion penalty currently experienced by many Maryland retirees. Further, HB 195 offers real tax relief to Maryland seniors. We believe that HB 195 and other senior tax relief bills will offer a significant incentive to keep seniors in Maryland.

In fact, seniors and others are moving to other states and 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. These states can be attractive destinations for Maryland retirees. ***This is supported by lots of data.*** Specifically, IRS statistics (https://www.irs.gov/statistics/soi-tax-stats-migration-data) have shown that in recent years, there was migration from Maryland to four popular states for seniors, namely, 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. Of course not all the migration was seniors, but it is likely a lot of seniors are represented here. Kiplinger's (https://www.kiplinger.com/slideshow/taxes/T054-S001-all-50-states-ranked-for-taxes-2019/index.html) has pointed out that Maryland is a high tax state 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.

Additionally, we 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 circa 25 percent 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. A quote from a Capital Gazette article (https://www.capitalgazette.com/opinion/columns/ac-ce-column-jurkowsky-20190201-story.html) by an advocate for tax relief for retired military personnel in Maryland makes some important points. This advocate's rationale for retired military tax relief generally applies to all seniors, e.g., "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 tax revenue but building a stronger fiscal base by increasing the number of state taxpayers."
We close by urging that keeping seniors in Maryland should be a matter of high priority for Maryland's legislators. NARFE supports HB 195 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 given herein, NARFE recommends that the Ways and Means Committee gives a favorable report to HB 195.