



MARYLAND MILITARY COALITION

Serving Veterans through Legislative Advocacy

January 23, 2024

The Honorable Guy Guzzone
Chair, Budget and Taxation Committee
3 West
Miller Senate Office Building
Annapolis, MD 21401

Subject: **Request for FAVORABLE Report** – SB0346 – Income Tax -- Subtraction
Modification – Military Retirement Income (Keep Our Heroes Home Act)

Dear Chair Guzzone and distinguished members of the Budget and Taxation 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 ***SB0346, Income Tax – Subtraction Modification – Military Retirement Income (Keep Our Heroes Home Act)***, sponsored by Senator Sarah Elfreth. This bill will, over the next three years, eliminate the current age restriction on the subtraction of military retirement income from the State Income Tax and phase in a 100% subtraction modification of all military retirement income by the end of 2026.

This bill will place Maryland in a position to join the 38 other states that do not tax military retirement income and have no age restriction (see Attachment 1). It will align Maryland with its neighboring states of Pennsylvania and West Virginia which already exempt military retirement income from their state income tax. It will place Maryland ahead of the Commonwealth of Virginia, which will, beginning with Tax Year 2025 and beyond, exempt a maximum of \$40,000 of military retirement income. It will also place our state ahead of Delaware, which only exempts \$12,500 of military retirement income from its state income tax.

Passing this bill will help address three interrelated economic issues impacting Maryland's economy: 1) slow employment and wage growth, 2) a decline in the labor participation rate, and 3) domestic migration away from more expensive states such as Maryland.

As pointed out in the Comptroller of Maryland's inaugural State of the Economy Report, Maryland's economic growth has stalled since 2017.¹ The report points out that while growth in federal employment in Maryland has been considerable in the post-pandemic recovery, private sector employment has not recovered to its pre-pandemic level. There are 3.1 job openings for every job seeker in Maryland, compared to the U.S. as a whole where there are 1.3 openings for

¹ <https://www.marylandtaxes.gov/reports/static-files/SOTE.pdf>, Executive Summary

every job seeker. As an example, in Maryland, there are currently 8,857 openings for jobs that require any type of security clearance.²

A second interrelated issue impacting Maryland's economy is the decline in the state's labor participation rate: "Examining labor participation by demographic groups shows that Maryland's underperformance in LPR recovery relative to the nation and its neighbors is concentrated in the 25 to 44 age cohorts. A decline in labor participation among prime-aged workers is particularly concerning because these workers are typically the most productive compared to other age groups."³

Domestic migration out of Maryland is the third interrelated issue impacting Maryland's economy. As pointed out in the State of the Economy Report, Maryland has experienced domestic outmigration for the last ten years. Of the average 8,000 per year in that timespan who have left the state, 16 percent are between the age 35 and 54 with another 37 percent between the ages of 55 and 64.⁴ Combined, **over half of the average annual domestic migration out of Maryland has been those between the ages of 35 and 64.** Further, of those leaving who earned \$100,000 or more each year, 14 percent were between the ages 35 and 54 with 22 percent between the ages of 55 and 64, for a total of 36 percent.

Nationally, Maryland does not rate well when it comes to taxes. According to the Tax Foundation, **Maryland ranks 45th out of 50 states for its individual income tax.** Only Connecticut (#46), Hawaii (#47), New Jersey (#48), California (#49), and New York (#50) rank lower. All four contiguous states to Maryland have a higher ranking: Pennsylvania (#23), West Virginia (#25), Virginia (#34), and Delaware (#43).⁵

As of January 31, 2023, there were 51,835 military retirees in Maryland, receiving approximately \$1.968 billion in retirement income annually.⁶ **The number of military retirees has declined by 985 since the end of 2019 (see Attachment 2) and by 421 just between the end of 2021 and January 2023.** With a military retiree in Maryland receiving an average of \$37,962 during those 13 months, **that decline in the number of retirees resulted in approximately \$16 million less dollars coming into the state.**

Further, **as part of the domestic migration out of Maryland, military retirees are moving to states such as North Carolina where military retirement income from all the uniformed services is exempt from that state's income tax with no age restriction (see Attachment 3).** As early as 2019, it was pointed out to Maryland officials that a major part of a military retiree's decision of whether to remain in Maryland "is the amount to which their military pension will be taxed."⁷ Since then, the state has continued to see a decline in military retiree residents.

Almost all military retirees range in age from their late 30s to their early 50s, depending upon the number of years of service. Upon retirement from the military, many will work in civilian jobs for up to 25 years — **second careers with income that is fully taxable.** If there is no change to

² <https://www.clearancejobs.com/jobs/maryland>

³ <https://www.marylandtaxes.gov/reports/static-files/SOTE.pdf>, Executive Summary

⁴ Ibid.

⁵ Tax Foundation, 2024 State Business Tax Climate Index, <https://taxfoundation.org/research/all/state/2024-state-business-tax-climate-index/>

⁶ <https://actuary.defense.gov/>

⁷ <https://commerce.maryland.gov/Documents/ResearchDocument/employment-in-maryland-defense-study-HB-1542-2019.pdf>, page 32.

the current law, military retirees will continue to leave the state for those where there is no tax on their military retirement income, resulting in depriving Maryland income, property, and sales tax revenue and other economic benefits that would be received if they stayed. However, **by retaining military retirees in Maryland through the elimination of the age restriction and phasing in the full 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.**

The fundamental issue is whether Maryland wants to retain this valuable human capital or continue to let this valuable resource leave the state. **SB0346**, if passed and signed into law, will serve to mitigate the trend of continuing loss in the 35 to 54 age cohort and **help retain the human capital to help improve the state's economy going forward.**

SB0346 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. 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.”⁸ As well, it complements the Governor’s Year of Military Families by signaling to those on active duty currently assigned to installations in Maryland, and who will retire in the next three years, that our state is serious in them remaining here.

The Maryland Military Coalition **strongly supports** SB0346 and asks for a **FAVORABLE** report from the Budget and Taxation Committee. Eliminating the age restriction and phasing in a 100 percent exemption of military retirement income over the next three years 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 Senator Sarah Elfreth for sponsoring this legislation and her continued strong support of the uniformed services community, in particular, military retirees, in Maryland.

Respectfully,



David L. Dragics
COL USA (Ret)
Legislative Director

Attachments (3)

⁸ <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>

Member Organizations, Maryland Military Coalition

James P. Monahan
Air Force Sergeants Association

Steve P. May
American Military Society

Elwood Raphael Gray
American Minority Veterans Research Project

A. W. [Signature]
Association of the United States Navy

Lynda A. Nash
Commissioned Officers Association of the
US Public Health Service

Wilbur B. Fisher
Disabled American Veterans

Seldon H. [Signature]
Distinguished Flying Cross Association

Phyllis J. Collins
Fleet Reserve Association

Seldon H. [Signature]
Jewish War Veterans of the USA

Steve L. Bloodwin
Maryland Air National Guard Retirees'
Association

Emmett R. Robert
Maryland Veterans Chamber of Commerce

Robert J. Winton
Military Officers Association of America

Charles [Signature]
Military Order of the Purple Heart

[Signature]
Montford Point Marines of America

M. L. [Signature]
National Association for Black Veterans

Michael P. [Signature]
Naval Enlisted Reserve Association

Christian Andreasen
NOAA Association of Commissioned Officers

[Signature]
Reserve Organization of America

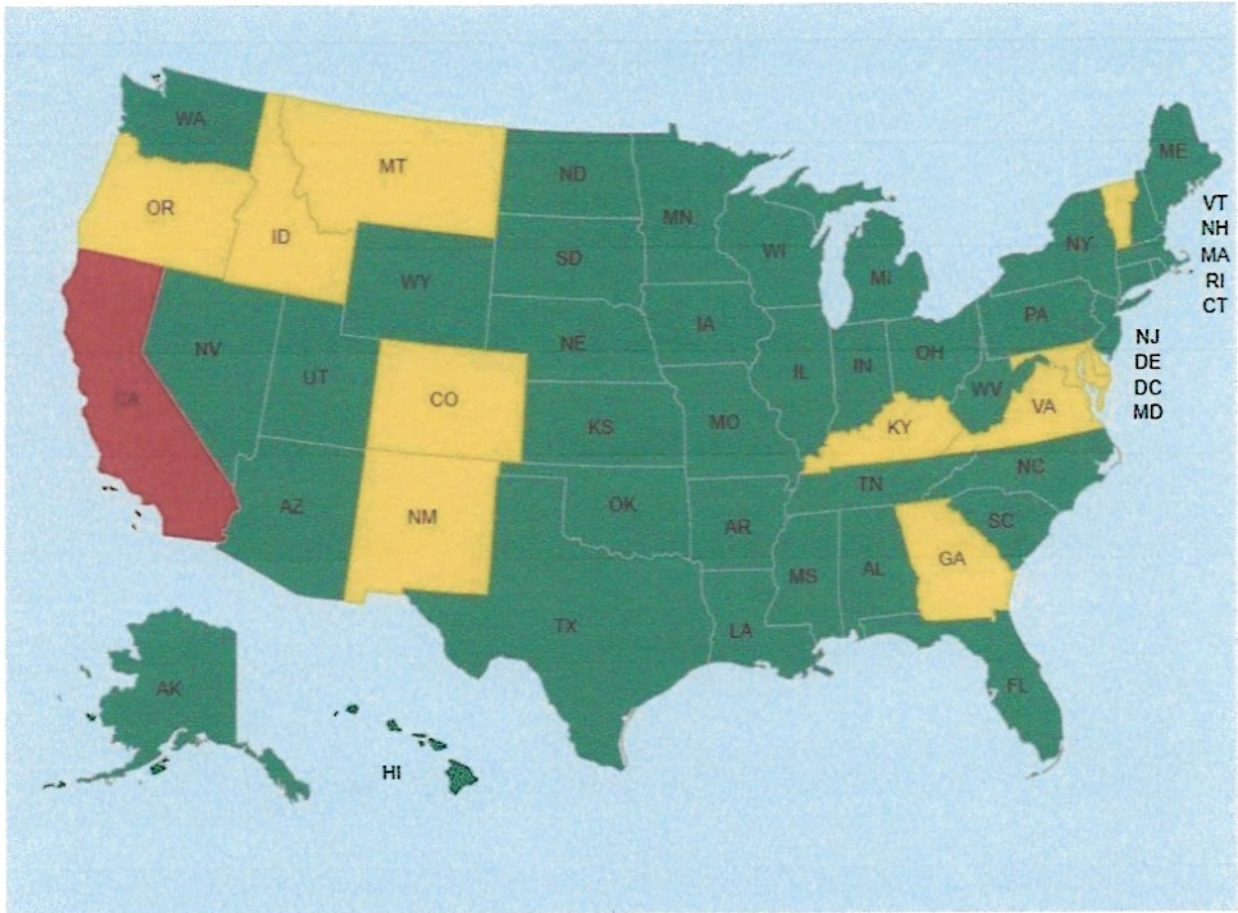
Catherine L. McShaw
Society of Military Widows

[Signature]
National Active and Retired Federal Employees
Veterans Affairs Directorate, NARFE MD

M. Blackwell
Veterans of Foreign Wars

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

As of January 21, 2024



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



MARYLAND MILITARY COALITION

UPDATED January 21, 2024 LISTINGS

The 38 States that Exempt Uniformed Services Retired Pay

As of January 21, 2024, **38 of the 50 states** do not tax ALL uniformed retirement pay, and that figure includes the 9 states, marked with asterisks below (*), without any personal income tax:

1. Alabama ‡ ^{SS}	20. Nevada *
2. Alaska *	21. New Hampshire *
3. Arizona ☒ ‡ ^{SS}	22. New Jersey ‡ ^{SS} (+\$6K Vet deduction)
4. Arkansas ☒ ‡ ^{SS}	23. New York ‡ ^{SS}
5. Connecticut ‡ Military-only retired pay	24. North Carolina ‡ ^{SS} 2022 (+ USPHS/NOAA)
6. Florida *	25. North Dakota ‡ ^{SS} Military-only retired pay
7. Hawaii ‡ ^{SS}	26. Ohio ‡ ^{SS}
8. Illinois ☒ ‡ » ^{SS}	27. Oklahoma ☒ ^{SS}
9. Indiana ‡ ^{SS} Military-only retired pay	28. Pennsylvania ‡ » ^{SS}
10. Iowa ☒ ‡ ^{SS} 2023 ALL	29. Rhode Island Military-only retired pay
11. Kansas ‡ ^{SS}	30. South Carolina ‡ ^{SS} Military-only retired pay
12. Louisiana ‡ ^{SS}	31. South Dakota*
13. Maine ‡ ^{SS} Military-only retired pay	32. Tennessee*
14. Massachusetts ‡ ^{SS}	33. Texas*
15. Michigan ☒ ‡ ^{SS} Military-only retired pay	34. Utah ‡ Military-only retired pay
16. Minnesota ☒ ‡	35. Washington*
17. Mississippi ‡ » ^{SS}	36. West Virginia ‡ Military-only retired pay
18. Missouri ☒ ‡	37. Wisconsin ‡ ^{SS} Military-only retired pay
19. Nebraska ‡	38. Wyoming*

* 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 retiree's "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 2023

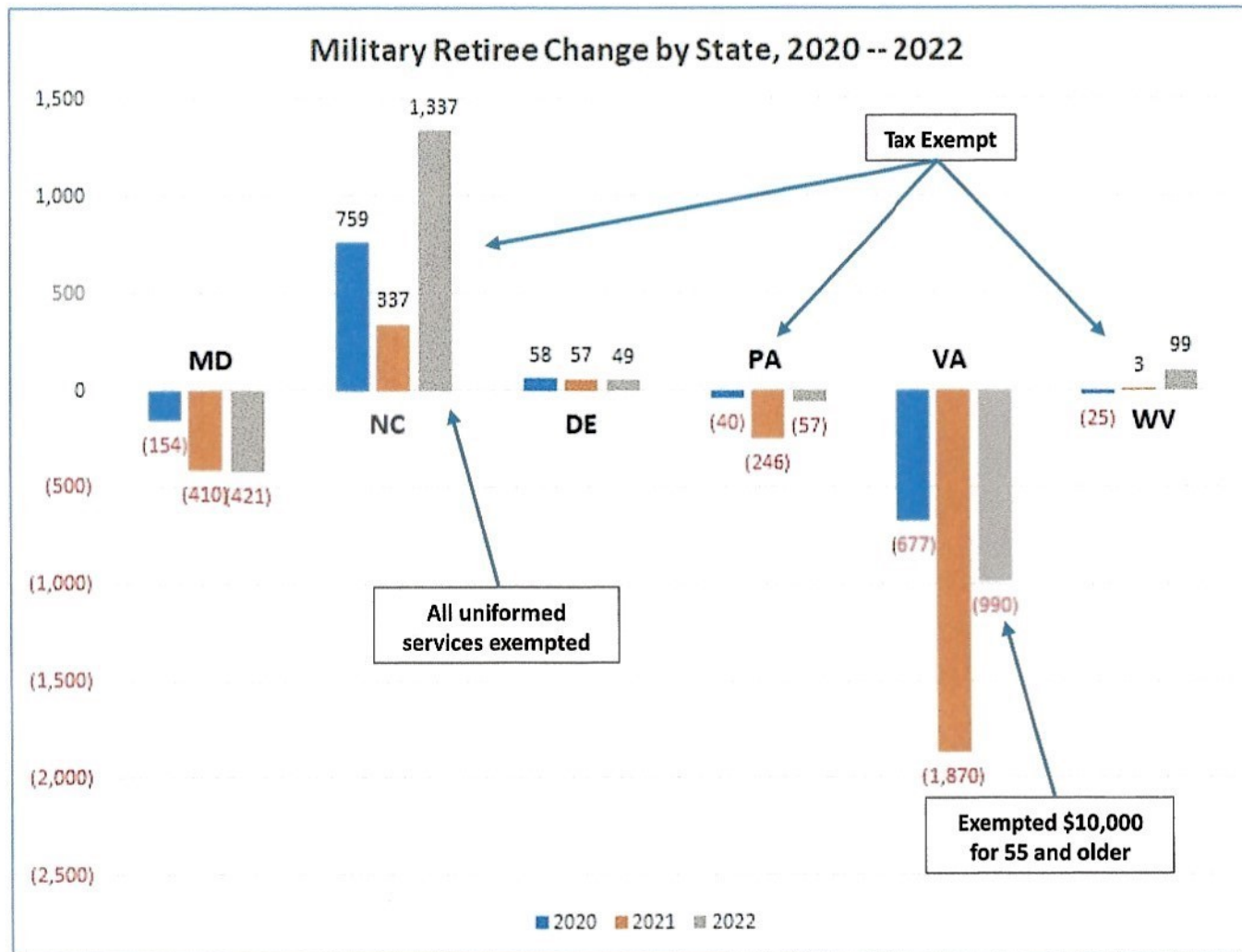
As of 12/31	Total DoD Retired Receiving Pay from DoD	Total DoD Retired with VA Offset	Total Monthly Pay (\$1000)	Total Annual Pay (\$1000)	Total Survivors	Survivors with DIC Offset	Monthly Pay	Total Annual Pay (\$1000)	Total Retired & Survivors	Annual Change	Retiree Average Annual Pay (\$1000)	Survivor 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
1/31/2023	51,835	12,788	\$163,980	\$1,967,760	6,348		\$10,168	\$122,016	58,183	(552)	\$37,962	\$19,221
			-1.86%	2019 -2023 change:	(985)				Change from 2019 to 2023:	(1,114)		-1.9%

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, 2017-2023



North Carolina, Delaware, Pennsylvania, and West Virginia have no age restrictions on military retirement income.

Delaware exempts \$12,500.

Virginia taxed military retirement income before 2022. Exempted \$10,000 in 2022 for 55 and older and \$20,000 in 2023 for 55 and older. Virginia removed their age restriction beginning with Tax Year 2024. Will exempt \$30,000 in 2024 and \$40,000 in 2025 and beyond.

Source: <https://actuary.defense.gov/> Military Retirement subheading; dropdown menu; Congressional District Report, 2019-2023