



# MARYLAND MILITARY COALITION

*Serving Veterans through Legislative Advocacy*

February 11, 2025

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

Subject: **Request for FAVORABLE Report** – HB0800 – Income Tax -- Subtraction Modification for Military Retirement Income – Individuals Under the Age of 55

Dear Chair Atterbeary 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 **HB0800, Income Tax -- Subtraction Modification for Military Retirement Income – Individuals Under the Age of 55**, sponsored by Delegate Mike Griffith. This legislation will increase the amount of the subtraction modification under the Maryland income tax for military retirement for individuals who are under the age of 55 and eliminate that age restriction.

This legislation will align Maryland with all four of its neighboring states which already have no age restriction regarding the exemption of military retirement income from their state income tax. It also makes the exemption amount of \$20,000 equal for *ALL* military retirees in the state. It places our state ahead of Delaware, which exempts only \$12,500 of military retirement income from its state income tax for all military retirees. The legislation, however, still has Maryland lagging behind Pennsylvania and West Virginia, where all military retirement income is exempt from state income tax, and behind Virginia where \$40,000 of this income will be exempt in tax year 2025 and beyond. More importantly, **absent this legislation, Maryland will continue to be an exception to the 38 states that currently exempt military retirement income from their state income tax with no age restriction** (Attachment 1).

This legislation is but a small step that addresses a major economic issue impacting Maryland's economy: domestic migration away from more expensive states such as Maryland. As pointed out in the Comptroller of Maryland's State of the Economy Report, Maryland's economic growth has stalled since 2017.<sup>1</sup> 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 every job seeker. As an example, in Maryland, there are currently 8,416 openings for jobs that require any type of security clearance.<sup>2</sup>

Nationally, Maryland does not rate well when it comes to taxes. According to the Tax Foundation, **Maryland ranks 46<sup>th</sup> out of 50 states for its individual income tax**. Only Connecticut (#47), California

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

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

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(#48), New Jersey (#49) and New York (#50) rank lower. All four contiguous states to Maryland have a higher ranking: West Virginia (#23), Virginia (#28), Pennsylvania (#34), and Delaware (#18).<sup>3</sup>

As of December 31, 2023, there were 52,025 military retirees in Maryland, receiving approximately \$1.968 billion in retirement income annually.<sup>4</sup> **The number of military retirees has declined by 795 since the end of 2019 (see Attachment 2) and by 231 just between the end of 2021 and December 2023.** With a military retiree in Maryland receiving an average of \$39,232 during those 24 months, **that decline in the number of retirees resulted in approximately \$9.1million 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."<sup>5</sup> Since then, the state has continued to see a decline in military retiree residents. **The fundamental issue is whether Maryland wants to retain this valuable human capital or continue to let this valuable resource leave the state.**

The Maryland Military Coalition **strongly supports** HB0800 and asks for a **FAVORABLE** report from the Ways and Means Committee. By eliminating the age restriction and equalizing the amount of military retirement income that can be exempted, **HB0800**, if passed and signed into law, is only the first step that must be taken 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. It is also only the first step to be taken to make Maryland competitive with the 38 other states that exempt all military retirement income with no age restriction.**

The Maryland Military Coalition is a registered non-profit, non-partisan advocacy organization comprised of 22 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. Visit our website at <https://mdmilcoalition.org>.

We want to thank Delegate Mike Griffith for sponsoring this legislation and his 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)

<sup>3</sup> <https://taxfoundation.org/research/all/state/2025-state-tax-competitiveness-index/>, 2025 State Tax Competitiveness Index

<sup>4</sup> <https://actuary.defense.gov/>

<sup>5</sup> <https://commerce.maryland.gov/Documents/ResearchDocument/employment-in-maryland-defense-study-HB-1542-2019.pdf>, page 32.





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### Updated – State Treatment of Military Retired Pay – As of August 7, 2024

#### The 38 States that Exempt Uniformed Services Retired Pay with No Age Restriction

As of August 7, 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 ⚡ <sup>SS</sup>                                      | 20. Nevada *  |
| 2. Alaska *   | 21. New Hampshire *   |
| 3. Arizona ☐ ⚡ <sup>SS</sup>                                    | 22. New Jersey ⚡ <sup>SS</sup>                                      |
| 4. Arkansas ☐ ⚡ <sup>SS</sup>                                   | 23. New York ⚡ <sup>SS</sup>  |
| 5. Connecticut ⚡ <b>Military</b> retired pay only               | 24. North Carolina ⚡ <sup>SS</sup>                                  |
| 6. Florida *  | 25. North Dakota ⚡ <sup>SS</sup> <b>Military</b> retired pay only   |
| 7. Hawaii ⚡ <sup>SS</sup>                                       | 26. Ohio ⚡ <sup>SS</sup>  |
| 8. Illinois ☐ ⚡ » <sup>SS</sup>                                 | 27. Oklahoma ☐ <sup>SS</sup> <b>Military</b> retired pay only       |
| 9. Indiana ⚡ <sup>SS</sup> <b>Military</b> retired pay only     | 28. Pennsylvania ⚡ » <sup>SS</sup>                                  |
| 10. Iowa ☐ ⚡ <sup>SS</sup>                                      | 29. Rhode Island <b>Military</b> retired pay only                   |
| 11. Kansas ⚡ <sup>SS</sup>                                      | 30. South Carolina ⚡ <sup>SS</sup> <b>Military</b> retired pay only |
| 12. Louisiana ⚡ <sup>SS</sup>                                   | 31. South Dakota*   |
| 13. Maine ⚡ <sup>SS</sup> <b>Military</b> retired pay only      | 32. Tennessee*  |
| 14. Massachusetts ⚡ <sup>SS</sup>                               | 33. Texas*  |
| 15. Michigan ☐ ⚡ <sup>SS</sup> <b>Military</b> retired pay only | 34. Utah ⚡ <b>Military</b> retired pay only                         |
| 16. Minnesota ☐ ⚡   | 35. Washington*   |
| 17. Mississippi ⚡ » <sup>SS</sup>                               | 36. West Virginia ⚡ <b>Military</b> retired pay only                |
| 18. Missouri ☐  | 37. Wisconsin ⚡ <sup>SS</sup> <b>Military</b> retired pay only      |
| 19. Nebraska  | 38. Wyoming*  |

\* 9 (Nine) States have no personal income tax

☐ Active Duty pay included

⚡ No tax on 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

<sup>SS</sup> 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.

### Military Retirees and Survivors Maryland -- 2014 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) |
|--------------------|--|----------------------------------|----------------------------|---------------------------|-----------------|---------------------------|-------------|---------------------------|---------------------------|---------------|-------------------------------------|--------------------------------------|
| 2014               | 52,508                                   | 21,809                           | \$129,174                  | \$1,550,088               | 6,936           | 1,189                     | \$8,088     | \$97,056                  | 59,444                    |               | \$29,521                            | \$13,993                             |
| 2015               | 52,643                                   | 22,571                           | \$130,140                  | \$1,561,680               | 6,884           | 1,224                     | \$8,028     | \$96,336                  | 59,527                    | 83            | \$29,665                            | \$13,994                             |
| 2016               | 52,626                                   | 15,187                           | \$131,018                  | \$1,572,216               | 6,751           | 1,225                     | \$7,919     | \$95,028                  | 59,377                    | (150)         | \$29,875                            | \$14,076                             |
| 2017               | 52,673                                   | 15,127                           | \$134,209                  | \$1,610,508               | 6,662           | 1,238                     | \$7,973     | \$95,676                  | 59,335                    | (42)          | \$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                             |
| 2023               | 52,025                                   | 13,654                           | \$170,088                  | \$2,041,056               | 6,321           |                           | \$10,422    | \$125,064                 | 58,346                    | 163           | \$39,232                            | \$19,785                             |
| 2014 -2023 change: |  |                                  | (483)                      |                           | -0.92%          | Change from 2014 to 2023: |             |                           | (1,098)                   |               | -1.8%                               |                                      |

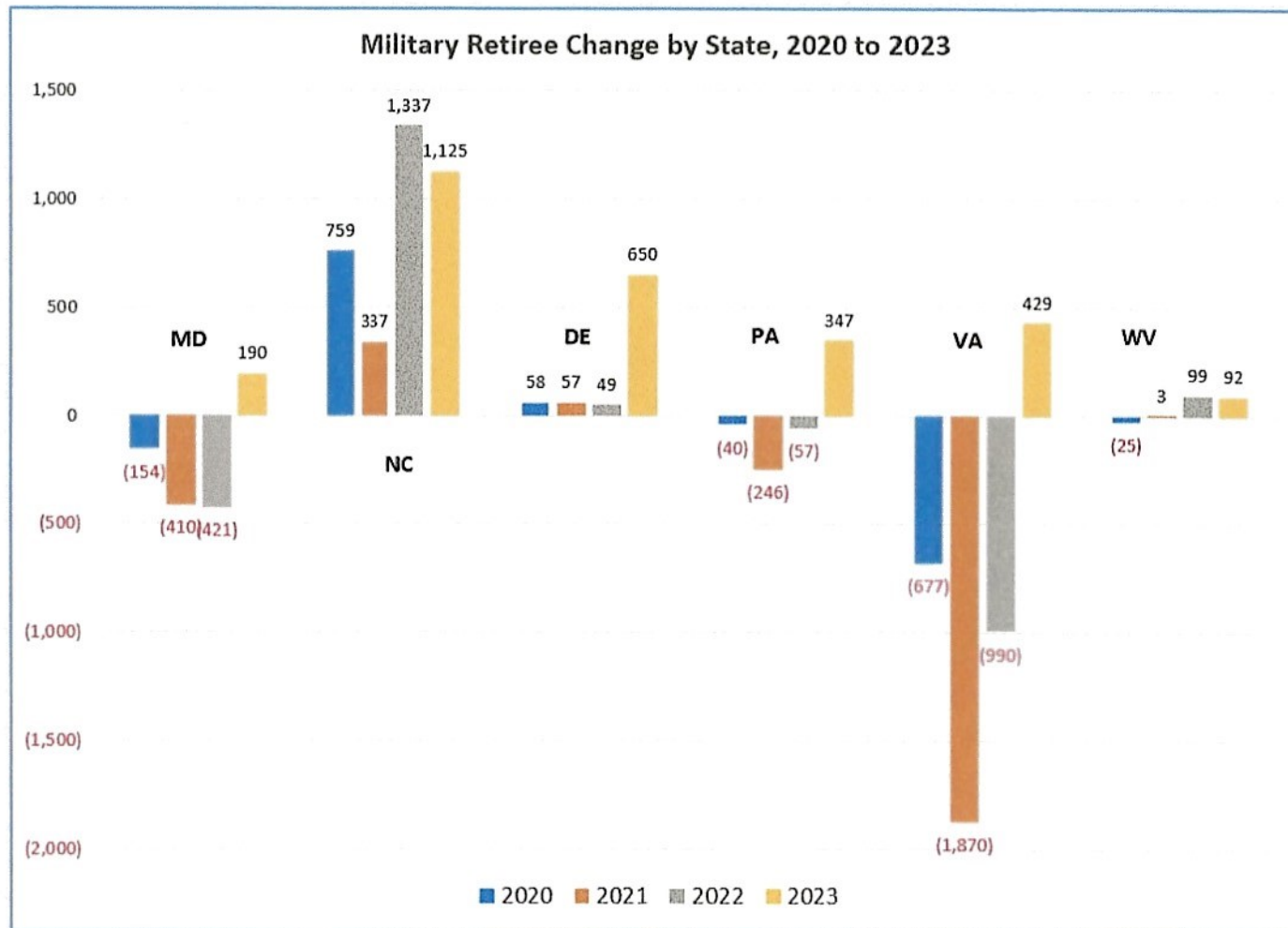
The monthly amount of retired pay (in \$1,000) is the amount prior to deductions for tax withholdings and other allotments, but after deductions for Survivor Benefit Plan premiums, waivers/offsets from compensation/award received from the U.S. Department of Veterans Affairs (VA), etc.

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.

North Carolina exempted the retirement income for all uniformed services in 2022.

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. Exempting \$30,000 in 2024 and \$40,000 in 2025 and beyond.

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