

**TESTIMONY OF
MICHAEL J. ALLEN, ASSOCIATE COMMISSIONER FOR TAX POLICY
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

Before the Joint Standing Committee on Taxation

Hearing Date: *January 9, 2024*

LD 1999 – “*An Act to Ensure the Equitable Treatment of Military Retirement Plan
Income*”

Senator Grohoski, Representative Perry, and members of the Taxation Committee – good afternoon, my name is Michael Allen, Associate Commissioner for Tax Policy in the Department of Administrative and Financial Services. I am here today at the request of the Administration to testify Neither For Nor Against LD 1999, “*An Act to Ensure the Equitable Treatment of Military Retirement Plan Income.*”

For tax years beginning on or after January 1, 2023, the bill proposes an income subtraction modification for the portion of military retirement plan benefits that are paid under a federal retirement plan to the extent included in federal adjusted gross income. Under current State law, military retirement plan benefits paid out under military retirement plans are exempt from State income tax. So, the focus of this bill is military retirement plan benefits paid out under civil retirement plans.

Military retirees who subsequently gain civil service employment have the option to waive their military retired pay in order to receive an increased civil service annuity based on combined military and civilian service through either the Civil Service Retirement System (“CSRS”) or the Federal Employee Retirement System (“FERS”). Amounts rolled over from a military retirement plan to a non-military retirement plan are subsequently characterized as non-military retirement

plan benefits and any distributions therefrom treated accordingly under Maine income tax law.

Military retirees who do not waive their rights to military retired pay remain eligible to receive both military retired pay and civil service retirement annuities based on the respective years of service under each plan.

To our knowledge the federal government does not break out civil service retirement payments between those payments related to military service and civilian payments. Without some third-party verification of the portion of the civil service payment that is related to military service it would be extremely difficult for the taxpayer and MRS to calculate the portion of the payment eligible for the military retirement income exemption.

During the last two legislative sessions, the Maine Legislature considered the impact of the State income taxation of pension benefits on retirees and expanded the existing State income tax deduction for pension benefits. This Legislature, most recently acting last year, raised the deduction from \$10,000 in 2022 to the full retirement social security benefit for tax years 2024 and later. In 2024 that maximum benefit is \$45,864. Combined with the personal exemption and the standard deduction, a single retiree in tax year 2024 would not pay Maine income tax on approximately the first \$65,000 that they receive in retirement income. For taxpayers filing a joint income tax return, both taxpayers may claim the pension deduction, for a potential deduction of \$91,728.

The Administration notes the following technical concerns:

- The bill should clarify how the portion of benefits paid under a federal retirement plan that is attributable to military service is to be determined

for each tax year. Determining this number precisely may be unreasonably complex. Instead, the bill should include a fair but simple way to apportion the distribution, for instance, by applying a ratio based on the number of years of military and civil service.

- The bill should be amended to coordinate the new pension deduction with the existing pension deductions to order their application and to prevent multiple deductions for the same income.

The estimated revenue impact of the bill is not currently available but is expected to be less than \$1 million per year.

The estimated administrative costs continue to be under consideration.

The Administration looks forward to working with the Committee on the bill; representatives from MRS will be here for the Work Session to provide additional information and respond in detail to the Committee's questions. I would be happy to respond to any questions you may have now.