

Department of Legislative Services  
 Maryland General Assembly  
 2020 Session

FISCAL AND POLICY NOTE  
 First Reader

Senate Bill 269 (The President, *et al.*) (By Request - Administration)  
 Budget and Taxation

**Income Tax Subtraction Modification – Correctional Officers, Law Enforcement Officers, and Fire, Rescue, and Emergency Services Personnel (Hometown Heroes Act)**

This Administration bill expands the State income tax subtraction modification for retired law enforcement; correctional officers; and fire, rescue, or emergency services personnel by (1) increasing the maximum value of the subtraction modification and (2) extending eligibility to retirees who are between age 50 and 54. **The bill takes effect July 1, 2020, and applies to tax year 2020 and beyond.**

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$6.6 million in FY 2021 due to additional retirement income being exempted. The Governor’s proposed FY 2021 operating budget assumes that general fund revenues will decrease by \$7.2 million due to the expansion of the subtraction modification. Future year estimates reflect projected growth in retirement income and the phase-in specified by the bill. Expenditures are not affected.

(\$ in millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF Revenue	(\$6.6)	(\$15.4)	(\$15.7)	(\$16.0)	(\$16.3)
Expenditure	0	0	0	0	0
Net Effect	(\$6.6)	(\$15.4)	(\$15.7)	(\$16.0)	(\$16.3)

*Note: ( ) = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease*

**Local Effect:** Local revenues decrease by \$4.4 million in FY 2021 and by \$10.9 million in FY 2025. Local expenditures are not affected.

**Small Business Effect:** The Administration has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment.

## Analysis

**Bill Summary:** Under current law, the maximum value of the subtraction modification is reduced by the amount of Social Security benefits received. After this adjustment, the maximum value is further limited to \$15,000. The bill alters this limitation to the greater of \$15,000 or 50% of the eligible income in tax year 2020 and eliminates the limitation beginning with tax year 2021.

### Current Law:

#### *State Pension Exclusion – All Eligible Individuals*

Maryland law provides a pension exclusion (in the form of a subtraction modification) for individuals who are at least 65 years old or who are totally disabled. Under this subtraction modification, up to a specified maximum amount of taxable pension income (\$31,100 for 2019) may be exempt from tax. The maximum exclusion 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 (Social Security offset). Military retirees who are at least age 65 or are totally disabled can qualify and claim the State pension exclusion for retirement income that is not excluded under the military retirement income subtraction.

Social Security benefits and benefits received under the federal Railroad Retirement Act are totally exempt from the Maryland income tax, even though they may be partly taxable for federal income tax purposes. In addition to the special treatment of Social Security and other retirement income, other income tax relief is provided to senior citizens regardless of the source of their income. In addition to the regular personal exemption available to all taxpayers, an additional exemption amount of \$1,000 may be claimed by an elderly or blind individual.

#### *Law Enforcement Officers; Correctional Officers; and Fire, Rescue, or Emergency Services Personnel*

Retired law enforcement officers; correctional officers; and fire, rescue, or emergency services personnel who are age 65 or older or are totally disabled qualify and claim the State pension exclusion in the same manner as other eligible retirees as described above.

Chapters 153 and 154 of 2017 established a pension exclusion for retired law enforcement officers or fire, rescue, or emergency services personnel. Retirement income qualifies for this exclusion if the individual is between the ages of 55 and 64 and the retirement income is attributable to employment as a law enforcement officer or as a fire, rescue, or emergency

services personnel of the United States, the State, or a local jurisdiction. Emergency services personnel includes emergency medical technicians and paramedics.

Chapters 573 and 581 of 2018 extended eligibility to correctional officers. An eligible retiree includes an individual who was employed in (1) a State correctional facility; (2) a local correctional facility; (3) a juvenile facility; and (4) a facility of the United States that is equivalent to a State or local correctional facility or juvenile facility in the State.

The maximum exclusion in the tax year is limited to \$15,000.

**State Revenues:** Additional retirement income can be exempted beginning in tax year 2020. It is assumed that individuals do not adjust withholdings and estimated payments. As a result, general fund revenues decrease by \$6.6 million in fiscal 2021. **Exhibit 1** shows the estimated impact of the bill on State and local revenues.

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**Exhibit 1**  
**State and Local Revenue Impacts**  
**Fiscal 2021-2025**  
**(\$ in Millions)**

	<b><u>FY 2021</u></b>	<b><u>FY 2022</u></b>	<b><u>FY 2023</u></b>	<b><u>FY 2024</u></b>	<b><u>FY 2025</u></b>
State	(\$6.6)	(\$15.4)	(\$15.7)	(\$16.0)	(\$16.3)
Local	(4.4)	(10.3)	(10.5)	(10.7)	(10.9)
<b>Total</b>	<b>(\$11.0)</b>	<b>(\$25.7)</b>	<b>(\$26.2)</b>	<b>(\$26.7)</b>	<b>(\$27.2)</b>

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The estimated impact of exempting additional public safety retirement income is based on the number of retirees who exempted retirement income in tax year 2017. This estimate is increased to account for (1) correctional officers and those employed in a correctional facility or juvenile facility who were not eligible in tax year 2017 and (2) the expansion to public safety retirees who are between age 50 and 54.

**Local Revenues:** Local income tax revenues decrease as a result of subtraction modifications claimed against the personal income tax. Local revenues decrease by \$4.4 million in fiscal 2021 and by \$10.9 million in fiscal 2025, as shown in Exhibit 1.

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## **Additional Information**

**Prior Introductions:** SB 171 of 2019, a similar bill, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. Its cross file, HB 154, received a hearing in the House Ways and Means Committee, but no further action was taken.

**Designated Cross File:** HB 350 (The Speaker, *et al.*) (By Request - Administration) - Ways and Means.

**Information Source(s):** Comptroller's Office; State Retirement Agency; Department of Legislative Services

**Fiscal Note History:** First Reader - February 3, 2020  
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**ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES**

TITLE OF BILL: **Hometown Heroes Act of 2020**

BILL NUMBER: SB269/HB350

PREPARED BY: Governor's Legislative Office

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

**OR**

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS