

Department of Legislative Services
Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 573

(The President)(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, 2021, and applies to tax year 2021 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$6.8 million in FY 2022 due to additional retirement income being exempted. The Governor’s proposed FY 2022 operating budget assumes that general fund revenues will decrease by \$6.8 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 2022	FY 2023	FY 2024	FY 2025	FY 2026
GF Revenue	(\$6.8)	(\$15.8)	(\$16.1)	(\$16.4)	(\$16.8)
Expenditure	0	0	0	0	0
Net Effect	(\$6.8)	(\$15.8)	(\$16.1)	(\$16.4)	(\$16.8)

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 2022 and by \$11.0 million in FY 2026. 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 2021 and eliminates the limitation beginning with tax year 2022.

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 (\$33,100 for 2020) 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 2021. It is assumed that individuals do not adjust withholdings and estimated payments. As a result, general fund revenues decrease by \$6.8 million in fiscal 2022. **Exhibit 1** shows the estimated impact of the bill on State and local revenues.

Exhibit 1
State and Local Revenue Impacts
Fiscal 2022-2026
(\$ in Millions)

	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
State	(\$6.8)	(\$15.8)	(\$16.1)	(\$16.4)	(\$16.8)
Local	(4.4)	(10.3)	(10.5)	(10.8)	(11.0)
Total	(\$11.2)	(\$26.2)	(\$26.7)	(\$27.2)	(\$27.7)

The estimated impact of exempting additional public safety retirement income is based on the number of retirees who claimed the subtraction modifications in tax year 2019, adjusted for the provisions of the bill.

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 2022 and by \$11.0 million in fiscal 2026, as shown in Exhibit 1.

Additional Information

Prior Introductions: Similar bills, SB 269 of 2020 and SB 171 of 2019, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. The cross files, HB 350 of 2020 and HB 154 of 2019, received a hearing in the House Ways and Means Committee, but no further action was taken.

Designated Cross File:HB 735 (The Speaker)(By Request - Administration) - Ways and Means.

Information Source(s): Comptroller's Office; Department of Legislative Services

Fiscal Note History: First Reader - February 8, 2021
rh/hlb

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

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

BILL NUMBER: SB 573

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 BUSINESSES

OR

WILL HAVE A MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS