

Department of Legislative Services
 Maryland General Assembly
 2022 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 316 (Delegate Novotny)
 Ways and Means

Income Tax Subtraction Modification – Retirement Income – Animal Control Officers

This bill expands the State income tax subtraction modification for retired law enforcement; correctional officers; and fire, rescue, or emergency services personnel by extending eligibility to retired State and local animal control officers. **The bill takes effect July 1, 2022, and applies to tax year 2022 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$18,500 annually beginning in FY 2023 due to additional retirement income being exempted. Expenditures are not affected.

(in dollars)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
GF Revenue	(\$18,500)	(\$18,500)	(\$18,500)	(\$18,500)	(\$18,500)
Expenditure	0	0	0	0	0
Net Effect	(\$18,500)	(\$18,500)	(\$18,500)	(\$18,500)	(\$18,500)

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

Local Effect: Local revenues decrease by \$12,100 annually beginning in FY 2023. Local expenditures are not affected.

Small Business Effect: None.

Analysis

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 (\$34,400 for 2021) 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). 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. The maximum exclusion in the tax year is limited to \$15,000.

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.

State Revenues: Additional retirement income can be exempted beginning in tax year 2022. It is assumed that individuals do not adjust withholdings and estimated payments. As a result, general fund revenues will decrease by \$18,500 annually beginning in fiscal 2023.

An estimated 30,000 individuals are employed within the State as a law enforcement officer; correctional officer; or fire, rescue, or emergency services personnel. In tax year 2018, about 5,000 taxpayers claimed the subtraction modification for these retired individuals who are between the ages of 55 and 64. The U.S. Bureau of Labor Statistics estimates that there are 130 animal control officers employed in Maryland – it is assumed a similar ratio of retired animal control officers are between the ages of 55 and 64 and otherwise qualify for the subtraction modification.

Local Revenues: Local income tax revenues will decrease as a result of subtraction modifications claimed against the personal income tax. Local revenues will decrease by \$12,100 annually beginning in fiscal 2023.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office; Federal Bureau of Investigations; U.S. Bureau of Labor Statistics; Department of Legislative Services

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