

Department of Legislative Services
 Maryland General Assembly
 2022 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 597 (Delegate Mangione, *et al.*)
 Ways and Means

Income Tax - Subtraction Modifications for Military and Public Safety
 Retirement Income (Honoring Their Sacrifice Act of 2022)

This bill expands the existing income subtraction modifications for (1) military retirement income and (2) retired law enforcement; correctional officer; and fire, rescue, and emergency services personnel. **The bill takes effect July 1, 2022 and applies to tax year 2022 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$27.0 million in FY 2023 due to additional retirement income being exempted. Future year revenues reflect projected growth in eligible retirement income. Expenditures are not affected.

(\$ in millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
GF Revenue	(\$27.0)	(\$28.1)	(\$29.2)	(\$30.4)	(\$31.6)
Expenditure	0	0	0	0	0
Net Effect	(\$27.0)	(\$28.1)	(\$29.2)	(\$30.4)	(\$31.6)

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

Local Effect: Local revenues decrease by \$16.8 million in FY 2023 and by \$19.7 million in FY 2027. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Bill Summary: The bill expands the existing military retirement income tax subtraction modification by increasing to \$30,000 the maximum amount of retirement income that can

be excluded. In order to qualify for the increased subtraction modification, the individual must be at least 50 years of age. For all other individuals, the subtraction modification is increased to \$15,000.

The bill also expands the existing State subtraction modification for retired law enforcement; correctional officer; and fire, rescue, and emergency services personnel by (1) allowing individuals age 50 to 54 years to claim the subtraction modification and (2) increasing to \$30,000 the maximum amount of retirement income that can be excluded.

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 (\$34,300 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). 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.

Military Retirement Income

Chapter 226 of 2006 expanded a \$2,500 military retirement income subtraction that was previously limited to enlisted military members with federal adjusted gross income of \$22,500 or less. An individual can exempt certain military retirement income from State and local taxation if the retirement income resulted from service (1) in an active or reserve component of the U.S. Armed Forces; (2) as a member of the Maryland National Guard; or (3) as an active duty member with the Commissioned Corps of the Public Health Service, the National Oceanic and Atmospheric Administration, or the Coast and Geodetic Survey. The subtraction modification can also be claimed by a surviving spouse or ex-spouse.

Legislation enacted in the 2015 and 2018 sessions expanded the maximum value of the subtraction modification to:

- \$15,000 for individuals who are at least age 55; and
- \$5,000 for all other individuals.

State Revenues: Additional retirement income can be exempted beginning in tax year 2022. As a result, State revenues will decrease by \$27.0 million in fiscal 2023. **Exhibit 1** shows the projected State and local revenue loss from exempting specified retirement income.

Exhibit 1
Projected State and Local Revenue Loss
Fiscal 2023-2027
(\$ in Millions)

	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
State	(\$27.0)	(\$28.1)	(\$29.2)	(\$30.4)	(\$31.6)
Local	(16.8)	(17.5)	(18.2)	(18.9)	(19.7)
Total Revenues	(\$43.8)	(\$45.6)	(\$47.4)	(\$49.3)	(\$51.3)

The estimated impact of exempting additional retirement income is based on the number of retirees who claimed the subtraction modifications in tax year 2020, adjusted for the provisions of the bill.

Local Revenues: Local income tax revenues decrease by about 3% of the total net State subtraction modifications claimed. Local revenues will decrease by \$16.8 million in fiscal 2023 and by \$19.7 million in fiscal 2027 as shown in Exhibit 1.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

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