

Department of Legislative Services
 Maryland General Assembly
 2023 Session

FISCAL AND POLICY NOTE
 First Reader

Senate Bill 461 (Senator Hershey, *et al.*)
 Budget and Taxation

Retirement Tax Elimination Act of 2023

This bill creates a subtraction modification against the State income tax for 100% of the income received by an individual who (1) is receiving old age or survivor Social Security benefits or (2) is at least age 65 and is not employed full time. The exemption is phased in over six years, beginning with tax year 2023. **The bill takes effect July 1, 2023.**

Fiscal Summary

State Effect: General fund revenues decrease by an estimated \$231.5 million in FY 2024; future years reflect phased increases in the value of the subtraction modification and projected growth in eligible income. General fund expenditures increase by \$78,000 in FY 2024 only.

(\$ in millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GF Revenue	(\$231.5)	(\$443.2)	(\$626.7)	(\$779.1)	(\$916.4)
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$231.6)	(\$443.2)	(\$626.7)	(\$779.1)	(\$916.4)

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

Local Effect: Local revenues decrease by \$171.9 million in FY 2024 and by \$653.1 million in FY 2028. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Bill Summary: The subtraction modification may not exceed:

- \$10,000 for tax year 2023;
- \$20,000 for tax year 2024;

- \$30,000 for tax year 2025;
- \$40,000 for tax year 2026; and
- \$50,000 for tax year 2027.

In tax year 2028 and beyond, the subtraction modification includes all income of an eligible individual. The Comptroller must adopt regulations to implement the bill's provisions.

Current Law: State law provides for various income tax relief for seniors, as discussed below.

Maryland Pension Exclusion

Under the Maryland pension exclusion, an individual who is at least age 65, who is totally disabled, or whose spouse is totally disabled may subtract certain taxable pension and retirement annuity income from federal adjusted gross income for purposes of determining Maryland adjusted gross income. The maximum value of the subtraction is indexed to the maximum annual benefit payable under the Social Security Act (\$34,300 for 2022) and is reduced by the amount of any benefit payments received under the Social Security Act or Railroad Retirement Act ("Social Security offset").

Senior Tax Credit

Chapters 3 and 4 of 2022 establish a nonrefundable tax credit against the State income tax for a resident who is age 65 or older and whose federal adjusted gross income does not exceed \$100,000 (\$150,000 if filing jointly or as a surviving spouse or head of household). The amount of the tax credit is equal to (1) \$1,000 or (2) \$1,750 for surviving spouses, heads of household, and joint filers if both spouses are at least age 65. The credit is available beginning tax year 2022. For a tax year in which the September general fund estimate issued by the Board of Revenue Estimates for the current fiscal year is more than 7.5% below the March general fund estimate issued in the same year, the value of the tax credit is reduced for specified taxpayers.

Other Tax Relief for Seniors

Social Security benefits and benefits received under the federal Railroad Retirement Act are totally exempt from the Maryland income tax, though they may be partly taxable for federal income tax purposes. 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, individuals age 65 and older may claim an additional exemption of \$1,000.

Additional exemptions exist for qualified military retirement income as well as qualified retirement income attributable to service as a correctional officer; law enforcement officer; fire, rescue, or emergency services personnel; forest ranger; park ranger; or wildlife ranger.

State/Local Revenues: As discussed above, under the bill, eligible individuals may exempt up to \$10,000 in income, regardless of source, in tax year 2023; the maximum value of the subtraction modification increases by \$10,000 annually over the next four years until it equals \$50,000 in tax year 2027. Beginning in tax year 2028, the bill exempts 100% of the income received by an eligible individual.

Exhibit 1 shows the bill’s estimated effect on State general fund and local income tax revenues. As shown in the exhibit, in fiscal 2024, State general fund revenues decrease by an estimated \$231.5 million and local income tax revenues decrease by an estimated \$171.9 million. Future years reflect phased increases in the maximum value of the subtraction modification and projected increases in eligible income. In fiscal 2029, once the exemption is fully phased-in, State and local revenue losses total an estimated \$3.0 billion.

Exhibit 1
Projected State and Local Revenue Loss
Fiscal 2024-2029
(\$ in Millions)

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
State	(\$231.5)	(\$443.2)	(\$626.7)	(\$779.1)	(\$916.4)	(\$1,755.0)
Local	(171.9)	(317.3)	(443.0)	(553.5)	(653.1)	(1,217.2)
Total	(\$403.4)	(\$760.5)	(\$1,069.7)	(\$1,332.6)	(\$1,569.5)	(\$2,972.2)

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

This estimate is based on an analysis by the Comptroller’s Office utilizing tax year 2019 State and federal income tax data and adjusted to account for the offsetting effect of the senior tax credit enacted under Chapters 3 and 4 of 2022. The Comptroller’s Office estimates that in tax year 2019, about 444,000 taxpayers would have benefited from the proposed exemption.

State Expenditures: General fund expenditures for the Comptroller's Office increase by \$78,000 in fiscal 2024 only for one-time changes to the Comptroller's tax systems.

Additional Information

Prior Introductions: Similar legislation has been introduced within the last three years. See SB 405 and HB 420 of 2022.

Designated Cross File: None.

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

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js/hlb

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