HB 455

Department of Legislative Services

Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 455 (The Speaker, *et al.*) (By Request - Administration)
Ways and Means

Income Tax Exemption Amount - Elderly Individuals

This Administration bill increases the amount of the additional exemption allowed under the personal income tax for individuals who are age 65 or older from $1,000 to $5,000, phased in over four years beginning in tax year 2017.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: General fund revenues decrease by $23.1 million in FY 2018 due to increased exemption amounts claimed against the personal income tax. Future year estimates reflect the phase in specified by the bill and the projected increase in eligible individuals. General fund expenditures increase by $50,000 in FY 2018 due to one-time implementation costs at the Comptroller's Office.

($ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	$0	($23.1)	($47.9)	($74.5)	($103.1)
GF Expenditure	$0	$0.1	$0	$0	$0
Net Effect	$0.0	($23.1)	($47.9)	($74.5)	($103.1)

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

Local Effect: Local revenues decrease by $14.8 million in FY 2018 and by $66.2 million in FY 2021. Local expenditures are not affected.

Small Business Effect: The Administration has determined that this bill has a meaningful impact on small business (attached). The Department of Legislative Services disagrees with this assessment.

Analysis

Current Law/Background: In addition to the regular personal exemption available to all taxpayers, individuals who are age 65 or older and blind individuals may claim an additional personal exemption of $1,000.

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. Maryland law also 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 ($29,200 for 2015) may be exempt from income 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.

According to the Department of Budget and Management, in fiscal 2016 the State subtraction modification for Social Security benefits reduced State revenues by $210.5 million (this is in addition to the revenue loss resulting from the partial federal exemption of Social Security benefits), and the State pension exclusion reduced State revenues by $166.0 million.

State Revenues: The bill increases the amount of the additional exemption that can be claimed by individuals who are age 65 or older to (1) $2,000 in tax year 2017; (2) $3,000 in tax year 2018; (3) $4,000 in tax year 2019; and (4) $5,000 in tax year 2020. In tax year 2017, an estimated 506,300 tax returns will benefit from the proposed increase in the exemption amount, of which 477,000 are resident returns. As a result, general fund revenues will decrease by an estimated $23.1 million in fiscal 2018. **Exhibit 1** shows the estimated impact of the bill on State and local revenues.

Exhibit 1
State and Local Revenue Impacts
Fiscal 2017-2021
($ in Millions)

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
State	$0	($23.1)	($47.9)	($74.5)	($103.1)
Local	0	(14.8)	(30.7)	(47.8)	(66.2)
Total Revenues	**$0**	**($37.9)**	**($78.6)**	**($122.4)**	**($169.3)**

This estimate is based on the following facts and assumptions:

- in tax year 2014, a total of 600,600 elderly exemptions were claimed, of which 451,700 were claimed on taxable returns;
- an average of $958 was claimed on taxable returns; and
- the number of claimants increases by just under 4% annually.

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of $50,000 in fiscal 2018 to modify the calculation of the exemption value in each applicable year. This includes data processing changes to the SMART income tax return processing and imaging systems and system testing.

Local Revenues: Local income tax revenues will decrease as a result of additional exemption amounts claimed against the personal income tax. Local revenues will decrease by $14.8 million in fiscal 2018 and by $66.2 million in fiscal 2021, as shown in Exhibit 1.

Additional Information

Prior Introductions: None.

Cross File: SB 387 (The President, *et al.*) (By Request - Administration) - Budget and Taxation.

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

Fiscal Note History: First Reader - February 22, 2016
md/jrb

Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Income Tax Exemption Amount – Elderly Individuals

BILL NUMBER: SB0387/HB0455

PREPARED BY: Aaron Barker, DBM Staff Economist

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

___ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

_X_ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

Increasing the additional personal exemption for elderly citizens will increase after-tax incomes for the affected citizens by $74 million once fully phased-in. This will support those Maryland small businesses that these individuals choose to patronize with their additional income.