SB 50

Department of Legislative Services

Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 50 (Senator Mathias)
Budget and Taxation

Income Tax – Subtraction Modification – Retirement Income of Law Enforcement, Fire, Rescue, and Emergency Services Personnel – Eligibility

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This bill expands the existing State subtraction modification for law enforcement, fire, rescue, and emergency services personnel by extending eligibility to individuals who otherwise meet the requirements under current law but receive a pension from the District of Columbia. Under current law, an eligible retiree must receive a pension from the federal government, the State, or local jurisdiction. **The bill takes effect July 1, 2018, and applies to tax year 2018 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by $324,000 in FY 2019 due to additional retirement income being exempted. Future year estimates reflect the projected number of eligible taxpayers. Expenditures are not affected.

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	($324,000)	($340,000)	($357,000)	($375,000)	($394,000)
Expenditure	0	0	0	0	0
Net Effect	($324,000)	($340,000)	($357,000)	($375,000)	($394,000)

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

Local Effect: Local revenues decrease by $212,000 in FY 2019 and by $258,000 in FY 2023. Local expenditures are not affected.

Small Business Effect: None.

Analysis

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 ($29,900 for 2017) 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).

The Social Security offset is the reduction in the maximum pension exclusion allowed under current law for an individual. The Social Security offset was established at the same time as the pension exclusion. Given that Social Security benefits are exempt from Maryland income tax even though benefits are partially taxable for federal purposes, the offset works to equalize the tax treatment of individuals who receive their retirement benefits from different sources by reducing the amount of the allowable exclusion by the amount of any Social Security benefits received.

One significant feature of the current pension exclusion is that it is limited to income received from an employee retirement system. Eligible employee retirement systems are retirement plans established and maintained by an employer for the benefit of its employees and qualified under Sections 401(a), 403, or 457(b) of the Internal Revenue Code. These include defined benefit and defined contribution pension plans, 401(k) plans, 403(b) plans, and 457(b) plans. However, individual retirement arrangements, Keogh plans, and simplified employee pension plans are not considered employee retirement systems.

Law Enforcement Officer and Fire, Rescue, and Emergency Services Personnel

Retired law enforcement 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 the State pension 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. Individuals who have retirement income that is attributable to employment in another state or the District of Columbia are not eligible for the exclusion. The maximum exclusion in the tax year is limited to $15,000.

State Revenues: Additional retirement income may be exempted beginning in tax year 2019. According to the District of Columbia Retirement Board, approximately 3,000 retirees and survivors received a benefit from the Police Officers and Firefighters Retirement Fund. Based on the requirements of the bill, it is estimated that approximately 10% of these retirees reside in Maryland and qualify for the pension exclusion proposed by the bill. It is assumed that individuals do not adjust withholdings and estimated payments. As a result, general fund revenues will decrease by $324,000 in fiscal 2019. **Exhibit 1** shows the estimated impact of the bill on State and local revenues.

Exhibit 1
State and Local Revenue Impacts
Fiscal 2019-2023

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
State	($324,000)	($340,000)	($357,000)	($375,000)	($394,000)
Local	(212,000)	(223,000)	(234,000)	(246,000)	(258,000)
Total	**($536,000)**	**($563,000)**	**($591,000)**	**($621,000)**	**($652,000)**

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 $212,000 in fiscal 2019 and by $258,000 in fiscal 2023, as shown in Exhibit 1.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office; District of Columbia Retirement Board; Department of Legislative Services

Fiscal Note History: First Reader - January 30, 2018
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