SB 870

Department of Legislative Services

Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 870 (Senator Corderman)
Budget and Taxation

Income Tax - Subtraction Modification - COVID-19-Related Distribution of Retirement Income

---

This emergency bill creates a subtraction modification against the State income tax for an individual who makes a qualified COVID-19 related distribution from a retirement account. The maximum value of the subtraction modification is equal to $100,000 of the qualified distribution. **The bill applies to tax years 2020 through 2022.**

Fiscal Summary

State Effect: General fund revenues decrease due to subtraction modifications claimed against the income tax. The Comptroller's Office estimates that revenues will decrease by $107.7 million in FY 2022 and by $12.0 million in FY 2023. General fund expenditures increase by $60,000 in FY 2022 due to one-time implementation costs at the Comptroller's Office.

Local Effect: Local revenues will decrease by $70.2 million in FY 2022 and by $7.8 million in FY 2023. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Bill Summary: An individual can claim the subtraction modification for a retirement account distribution made (1) in tax year 2020 by a taxpayer who is exempt from the tax on early distributions under Section 2202 of the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 or (2) on December 31, 2020, or in tax year 2021 by a taxpayer who was subject to an early withdrawal penalty under the Internal Revenue

Code and (a) the individual, spouse, or dependent was diagnosed with COVID-19 or (b) due to the COVID-19 pandemic the individual experienced specified adverse financial consequences.

Current Law: For federal income tax purposes, an individual who receives an early distribution from a qualified retirement plan or an individual retirement account (IRA) before turning age 59 and one half may be required to include at least part of the distribution as income. The taxable amount is generally subject to an additional 10% tax on that amount, unless the distribution falls under an exception.

The federal CARES Act allows an exception to the 10% early withdrawal tax for a coronavirus-related distribution from a qualified retirement plan, a section 403(b) plan, or an IRA. The provision also allows a taxpayer to include income attributable to a coronavirus-related distribution ratably over three years and to recontribute the amount of the distribution to an eligible retirement plan within three years.

A coronavirus-related distribution is any distribution made on or after January 1, 2020, and before December 31, 2020, to an individual (1) who was diagnosed with the virus SARS-CoV2 or with COVID-19, or whose spouse or dependent is diagnosed or (2) who due to COVID-19 experiences adverse financial consequences as specified or other factors as determined by the Internal Revenue Service. The administrator of the plan may rely on the individual's certification that the distribution is a coronavirus-related distribution.

A plan is not treated as violating any requirement merely because it treats a distribution as a coronavirus-related distribution, provided that the aggregate amount of such distributions from plans maintained by the employer and members of the employer's controlled group or affiliated service group does not exceed $100,000. A plan is not treated as violating any requirement merely because an individual might receive total distributions in excess of $100,000, taking into account distributions from plans of other employers or IRAs. Any amount required to be included in income as a result of a coronavirus-related distribution is included in income ratably over the three-year period beginning with the year of distribution unless the individual elects not to have ratable inclusion apply.

Any portion of a coronavirus-related distribution may, at any time during the three-year period beginning the day after the date on which the distribution was received, be recontributed in one or more contributions to an eligible retirement plan to which a rollover can be made. Any amount recontributed within the three-year period is treated as a rollover and thus is not includible in income.

The State conforms to the federal tax treatment of these coronavirus-related distributions.

State Revenues: The bill creates in tax years 2020 through 2022 a subtraction modification against the State income tax for an individual who makes a qualified COVID-19 related distribution from a retirement account. The maximum value of the subtraction modification is equal to $100,000 of the qualified distribution. Based on the requirements of the bill, the Comptroller's Office estimates that general fund revenues will decrease by about $107.7 million in fiscal 2022 and by $12.0 million in fiscal 2023.

State Expenditures: The Comptroller's Office reports that it will incur a one-time general fund expenditure increase of $60,000 in fiscal 2022 to add the subtraction modification to the personal income tax form. This includes data processing changes to the income tax return processing and imaging systems and systems testing.

Local Revenues: Based on the assumptions above, local income tax revenues will decrease by about $70.2 million in fiscal 2022 and by $7.8 million in fiscal 2023.

Additional Information

Prior Introductions: None.

Designated Cross File: HB 1177 (Delegate Hartman) - Ways and Means.

Information Source(s): Comptroller's Office; U.S. Joint Committee on Taxation; Department of Legislative Services

Fiscal Note History: First Reader - March 2, 2021
rh/hlb

Analysis by: Robert J. Rehrmann

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