MDCEP
MARYLAND CENTER ON ECONOMIC POLICY

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Further Tax Cuts Based on Age Rather than Need Will Make Maryland Worse Off

Position Statement in Opposition to Senate Bill 278

Given before the Senate Budget and Taxation Committee

Sufficient tax revenue is essential for supporting the investments that make Maryland a good place to live, work and spend one's golden years. Additional tax cuts on retirement income would result in financial gain primarily for the wealthiest households, while costing the state nearly $650 million over the next five years. While it is important to support retirees who struggle to make ends meet, as well as people with disabilities, costly across-the-board tax breaks on retirement income are more likely to harm low-income seniors than help them. For these reasons, the Maryland Center on Economic Policy opposes Senate Bill 278.

Maryland has underinvested in the foundations of our communities, such as health care, transportation, and education, since the Great Recession. That gap is expected to widen as today's outdated tax code falls further behind Marylanders' unmet needs. The aging of our population is an important contributor, bringing higher health care costs as well as lower wages—which mean less tax revenue—as young workers replace retirees.[i] Insufficient revenue growth will make it more difficult for us to invest in things that make Maryland an inviting place to retire, such as accessible transportation options and high-quality long-term care. Senate Bill 278 would make these investments even harder, ultimately harming the people the bill is intended to benefit.

The truth is, Maryland already offers larger tax breaks to older adults than most other states, including exemptions for pension and Social Security income and an enhanced personal exemption. Altogether, a married couple in Maryland over age 65 could deduct up to $58,400 as of 2015.[ii] State tax breaks for older Marylanders totaled more than $400 million in FY 2018, according to the Department of Budget and Management.[iii] Once fully phased in, Senate Bill 278 could hike that cost by 60 percent or more.

The Department of Legislative Services estimates that Senate Bill 278 will cost the state more than $287 million per year when fully phased in, with an additional $238 million per year cost to local governments.[iv] This takes away resources the state and local governments need to provide public services older adults rely on, such as high-quality health care, as well as things like world-class public schools that lay the groundwork for the kind of state most older Marylanders want for their children and grandchildren.

While it is positive that the legislation places an income cap on who qualifies, it is still likely that those at the higher end of the income range covered by this bill are likely to receive the greatest share of the benefits. Structuring the tax breaks as deductions tilts the scales toward wealthier households, providing meager benefits for lower-income seniors who pay more in sales and property taxes than income taxes. Low- and moderate-income households and people of color face barriers that make it harder for them to put away a nest egg for retirement, which means that tax breaks like Senate Bill 278 would provide them little benefit. This legislation would likely increase the racial wealth gap by granting greater benefits to those who have significant assets saved for retirement and who have high enough income to owe significant income taxes.

While many older Marylanders face financial hardship, this is not true across the board—and Senate Bill 278 would do little for seniors who could use the most help. Among Maryland households headed by a person age 65 or older, 22 percent had less than $25,000 in annual income in 2018, nearly 120,000 households altogether.[v] About 16 percent of Maryland tax filers with income less than $25,000 did not owe state income tax in 2016, meaning that they would gain no benefit from Senate Bill 278—even though they may pay significant sales and property taxes.[vi] To gain the full benefit of Senate Bill 278 once fully phased in, a tax filer would have to have at least $50,000 in taxable income, or about $63,000 in total income for a married couple over age 65.[vii] These Marylanders would benefit more from high-quality state services than from a tax break.

Expanding tax breaks that primarily benefit affluent households would shift resources away from important public services that Marylanders of all ages rely on. Lawmakers should focus on policies that help Marylanders who need it most and strengthen our economy in the long run. Reforming the tax breaks Maryland offers aging adults would help the state provide these essential services while continuing to protect older Marylanders who struggle to make ends meet. Senate Bill 278 would do the opposite.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Senate Budget and Taxation Committee make an unfavorable report on Senate Bill 278.

Equity Impact Analysis: Senate Bill 278

Bill summary

Senate Bill 278 would allow tax filers to reduce their Maryland taxable income if they receive Social Security retirement or survivor benefits or if they are at least 65 years old and not working full time. The allowed income subtraction begins at $10,000 for tax year 2022 and phases up to $50,000 by 2026. Tax filers with federal adjusted gross income over $100,000 would not be eligible for tax breaks under Senate Bill 278.

Background

Maryland's income tax system already includes several types of special treatment for retirees. Social Security benefits are exempt from the income tax, and Marylanders over age 65 receive an additional $1,000 personal exemption. In addition, recent changes exempted the first $15,000 in annual retirement income for those who served in the U.S. military, law enforcement, or emergency services.

Workers of color face significant barriers, such as employment and housing discrimination, that have made it harder for them to build wealth over time. As a result, the median net worth of white families is 10 times that of Black families and eight times that of Latinx families. Because built-up assets are a prerequisite for most types of retirement income, Marylanders who have been locked out of building wealth throughout their lives would be locked out once again.

Equity Implications

Creating broad exemptions for retirement income will double down on the existing wealth and income inequality that already exists:

- Even with the limits placed on the exemption, the greatest share of the tax benefits will go to seniors who are on the higher end of incomes covered under the bill.
- Black, Latinx, and Asian households are less likely to have enough built-up assets to benefit from the income subtraction proposed in Senate Bill 278.
- This costly proposal would take away much-needed state resources that now support essential state investments. While the state could make different choices in the future, historically, such significant budget cuts have disproportionately affected services in low-income communities and communities of color, including services that that older Marylanders in these communities rely on.

Impact

Senate Bill 278 would likely **worsen racial and economic equity** in Maryland.

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[i] The Impact of Age Demographics on Maryland's Economic and Tax Revenue Outlook, Maryland Bureau of Revenue Estimates, https://finances.marylandtaxes.gov/static_files/revenue/BRE_reports/FY_2018/BRE%20Report%20on%20Age%20Demographics.pdf

[ii] "State Tax Preferences for Elderly Taxpayers." November 28, 2016.Institution on Taxation and Economic Policy. Retrieved from http://itep.org/itep_reports/2016/11/state-tax-preferences-for-elderly-taxpayers.php#.WJIx8_krIdU

[iii] FY 2018 Tax Expenditure Report, Department of Budget and Management, https://dbm.maryland.gov/budget/taxexpendreports/FiscalYear2018Tax%20ExpenditureReport.pdf

[iv] Maryland Department of Legislative Services, Fiscal and Policy Note for Senate Bill 278, http://mgaleg.maryland.gov/2020RS/fnotes/bil_0008/sb0278.pdf

[v] MDCEP analysis of American Community Survey 2018 one-year estimates.

[vi] MDCEP analysis of Maryland TY 2016 Statistics of Income, Maryland Comptroller's Office, https://www.marylandtaxes.gov/reports/static-files/revenue/statisticsofincome/individual/2016_Personal_SOI.pdf
Includes all ages. "Income refers to Maryland adjusted gross income, which is generally somewhat lower than total income.

[vii] Maryland AGI, assuming two $3,200 personal exemptions, two $1,000 additional personal exemptions for tax filers over age 65, and a $4,550 standard deduction. Depending on their specific circumstances household with significantly higher Maryland AGI could have taxable income as low as $50,000 if they claim itemized deductions, and would likely have total income slightly higher.