SB 572 Retirement Tax Reduction Act of 2021.pdf

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AARP Maryland

200 St. Paul Place, #2510 | Baltimore, MD 21202
1-866-542-8163 | Fax: 410-895-0269 | TTY: 1-877-434-7598
aarp.org/md | mdaarp@aarp.org | twitter: @aarpmaryland
facebook.com/aarpmd

SB 572 Retirement Tax Reduction Act of 2021
Favorable
Senate Budget and Taxation Committee
February 10, 2021

Good afternoon Chairman Guzzone and members of the Senate Budget and Taxation Committee. My name is Tammy Bresnahan. I am the Director of Advocacy for AARP MD. AARP Maryland is one of the largest membership-based organizations in the State, with over 860,000 members. AARP MD overwhelming supports SB 572.

SB 572 creates a subtraction modification against the State income tax for an individual who has federal adjusted gross income of $100,000 or less and is receiving Social Security benefits or is at least age 65 and is not employed full time. The maximum value of the subtraction modification is equal to $50,000 in tax year 2025, phased in over five tax years beginning with tax year 2023.

AARP is working hard to strengthen retirement security for all Americans by ensuring that workers and retirees have access to their hard earned and hard saved dollars. This advocacy responds to member priorities as revealed in a recent survey of over 1700 AARP Maryland members. Sixty (60) percent responded that maintaining their retirement savings should be an AARP legislative priority. I am here today in support of SB 278 on behalf of AARP and its members. We thank Governor Hogan for asking that this legislation be introduced.

As you may know, AARP is the largest nonprofit, nonpartisan organization representing the interests of Americans age 50 and older and their families. Key priorities of our organization include helping all Marylanders achieve financial and health security. In particular, AARP strongly believes that all individuals have the right to be self-reliant and live with dignity in retirement.

The rising cost of essential necessities, including groceries, utilities, and prescription drugs, is of significant concern for millions of Marylanders, especially for older and retired Marylanders living on fixed incomes. Older Marylanders on fixed incomes clearly feel the effects of inflation more than the rest of us. These retirees bear a disproportionate brunt of drug and medical inflation, which is significantly higher than overall inflation.

Maryland’s retirees currently pay federal income taxes, as well as significant state and local income taxes, and motor fuel taxes, sales taxes, and property taxes. A vast number of older Marylanders also fully support or contribute financially to the well-being of their children and grandchildren, as well as act as primary caregivers to their parents and spouses. They also feel that they have limited options for rejoining the workforce and virtually no time horizon to increase their savings.

Reducing taxes on retirement income will provide Maryland's retirees with extra dollars to care for their loved one's needs and provide assistance with food, housing, transportation and medical costs.

AARP Maryland respectfully requests a favorable report for SB 572. For questions or additional information, please feel free to contact Tammy Bresnahan, State Director of Advocacy at tbresnahan@aarp.org or by calling 410-302-8451.

SB 572_Gov Support .pdf
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STATE OF MARYLAND
OFFICE OF THE GOVERNOR

LARRY HOGAN
GOVERNOR

STATE HOUSE
100 STATE CIRCLE
ANNAPOLIS, MARYLAND 21401-1925
(410) 974-3901
(TOLL FREE) 1-800-811-8336

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SB 572 Retirement Tax Reduction Act of 2021

Senate Budget & Taxation Committee
February 10, 2021

Keiffer Mitchell, Chief Legislative Officer
Alexandra Keane, Deputy Legislative Officer

Chair Guzzone, Vice-Chair Rosapepe, and Members of the Senate Budget & Taxation Committee:

The Governor asks for your favorable report on Senate Bill 571 - Retirement Tax Reduction Act of 2021. Senate Bill 572 would exempt the first $50,000 of income from taxation for all retirees with less than $100,000 of federal adjusted gross income. This will be phased-in over 5 years, starting in FY 2023.

The Hogan Administration is very concerned with the ability of our retirees to make ends meet on a fixed income and this legislation would provide a much needed tax exemption on retirement income for those retirees needing it the most. These Marylanders have worked hard, and have children and grandchildren who they want to remain close to. However, they are facing the prospect of moving out of the state to reduce their income tax burden, so that they can ensure that their retirement savings will carry them through their remaining years.

Recent surveys have found that Maryland ranks as one of the worst states for retirees for multiple reasons, however, affordability and tax climate are the two largest factors. This bill will allow more Maryland retirees to keep their hard earned retirement income, and allow them to stay in our state, enjoying their retirement years with their family. It is important to allow Maryland retirees to continue to contribute to our communities and our economy, rather than chase them out of the state with high income taxes, simply because they need to weigh their ability to continue to live comfortably on their retirement savings they have put away.

The Hogan Administration thanks the Committee for your time and hope we can work together to pass this legislation, so that we can help remove the burden of high income taxes from our retirees and we can keep them in Maryland with their families and contributing to our communities and our economy.

SB0572-BT_MACo_OPP.pdf
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Position: UNF

MARYLAND Association of COUNTIES

Senate Bill 573

Retirement Tax Reduction Act of 2021

MACo Position: **OPPOSE**

To: Budget and Taxation Committee

Date: February 10, 2021

From: Kevin Kinnally

Tax Incentives and Local Government Autonomy

The swift and unprecedented shock of the COVID-19 public health crisis has wreaked havoc on the economy. As the focus shifts to restoring our state and local economies in a manner that is safe, equitable, and prosperous for all, counties are eager and committed partners in promoting economic growth and creating opportunity – we prefer local autonomy in determining the best way locally.

The Maryland Association of Counties (MACo) opposes state-mandated reductions in local revenue sources, but welcomes tools to grant counties options and flexibility to pursue their own parallel tax incentives, or to develop others to suit their local needs.

The General Assembly routinely considers proposals to change tax structures, often seeking to stimulate economic growth, encourage beneficial activities, or attract and retain residents. These proposals often are focused exclusively on the state's tax structure, but sometimes extend to local revenues as well.

In general, MACo stands for local self-determination. Counties, led by their elected leaders who are directly accountable within the community, are in the best position to make decisions on local affairs – ranging from land use to budget priorities. MACo steadfastly guards this local autonomy, and frequently advocates against statewide solutions that mandate county compliance or otherwise override local decision-making.

Property taxes show the best collaborative way to enact targeted tax relief. The State and its local governments already work together here – where the State routinely grants a state-level tax credit, but then enables county governments to enact their own as a local option.

State proposals that involve local revenue sources can be enacted as "local option" offerings, to allow counties maximum flexibility to achieve local goals.

MACo urges the Committee to primarily consider state income tax credits as the best means to incorporate local tax relief as part of a broader policy. MACo and county governments hope the Committee finds these comments helpful. Counties stand ready to work with state policymakers to develop flexible and optional tools to create broad or targeted tax incentives, but resist state-mandated changes that preclude local input.

169 Conduit Street, Annapolis, MD 21401
410.269.0043 BALT/ANNAP ◆ 301.261.1140 WASH DC ◆ 410.268.1775 FAX
www.mdcounties.org

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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 572

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 likely costing the state hundreds of millions 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 572.

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 572 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]

The Department of Legislative Services estimated that a similar bill introduced in 2020 would have 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 572 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 572 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 572—even though they may pay significant sales and property taxes.[vi] To gain the full benefit of Senate Bill 572 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 572 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 572.

Equity Impact Analysis: Senate Bill 572

Bill summary

Senate Bill 572 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 572.

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 572.
- 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 572 would likely **worsen racial and economic inequity** 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 of 2020, 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.