HB 365

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE
Revised

House Bill 365 (Delegates Hixson and Hurson)
Ways and Means

Income Tax - Subtraction for Retirement Income

This bill modifies the State's pension exclusion for retirement income. Under current law, the pension exclusion is applied as an income tax subtraction modification. It is determined by taking the lessor of: (1) total retirement income received from an employee retirement system, excluding IRAs, Keoghs, or deferred compensation plans; or (2) the maximum Social Security benefit allowed under federal law reduced by the amount of Social Security payment the individual received that taxable year. The bill: (1) expands the types of retirement income that may be used in the calculation to include income from qualified retirement plans, such as IRAs, Keoghs, and deferred compensation plans; and (2) eliminates the Social Security received offset.

The bill takes effect July 1, 1999 and applies to all taxable years beginning after December 31, 1998.

Fiscal Summary

State Effect: General fund revenues would decrease by $147.3 million in FY 2000, which includes the impact of tax year 1999 and half of tax year 2000. Future year revenue decreases reflect a single fiscal year's loss and 4% growth. Expenditures would not be affected.

(in millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	($147.3)	($103.5)	($107.3)	($111.7)	($116.9)
GF Expenditures	0	0	0	0	0
Net Effect	($147.3)	($103.5)	($107.3)	($111.7)	($116.9)

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

Local Effect: Local piggyback revenues would decrease by $83.5 million in FY 2000 and $59.0 million in FY 2001. Expenditures would not be affected.

Small Business Effect: None.

Fiscal Analysis

State Revenues: The exhibit below presents the savings to a retiree under current law and under the bill. The retiree is assumed to receive $13,000 in annual pension income through an employer retirement plan, $3,000 in distributions from an IRA, and $8,000 in Social Security (SS) payments. As the exhibit indicates, the additional State tax savings to the retiree as a result of the bill is $364.

State Tax Savings to Retirees from the Pension Exclusion in 1999						
	Current Law			HB 365		
Types of Income	Retirement income	IRA	SS payments received	Retirement income	IRA	SS payment received
Amount of Income	$13,000	$3,000	$8,000	$13,000	$3,000	$8,000
Pension Exclusion Calculation (assume max. SS benefit allowed in 1999 is $16,500)						
	Take lessor of:			Take lessor of:		
	$13,000 or ($16,500 - $8,000)			($13,000 + $3,000) or $16,500		
Pension Exclusion	$8,500			$16,000		
State Tax Savings	$412			$776		

Based on the 1996 Maryland Statistics of Income data, it is estimated that general fund revenues would decrease by about $96.5 million in tax year 1999. Although the increased subtraction is allowed for tax year 1999, it is assumed that most taxpayers will not adjust their estimated payments to reflect the increased subtraction until after July 1, 1999. Consequently, general fund revenues are estimated to decrease by $147.3 million in fiscal 2000, reflecting the impact of one and one-half tax years. The estimate is based on the following facts and assumptions:

- Total pension exclusion claimed in 1996 was approximately $951 million.

- Taxable retirement income, including income from qualified retirement plans, is estimated to increase by 10% annually, based on reported federal tax returns for Marylanders.

- The pension exclusion amount increases by 4% annually.

- The number of retirees claiming the pension exclusion grows by 1% annually.

Future year revenue decreases reflect a single fiscal year's loss and grow by about 4% annually.

Local Revenues: Local piggyback revenues would decrease by $83.5 million in fiscal 2000 and $59.0 million in fiscal 2001. Future year revenue losses increase by about 4% annually.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates), Department of Legislative Services

Fiscal Note History: First Reader - February 26, 1999
mld/jr Revised - Corrected - February 28, 1999

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