

Department of Legislative Services  
 Maryland General Assembly  
 1999 Session

FISCAL NOTE

House Bill 196 (Delegate O'Donnell. *et al.*)

Ways and Means

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**Income Tax - Subtraction Modification for Military Retirement Income**

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This bill expands the current subtraction modification for military retirement income from \$2,500 to the full amount of taxable military retirement income included in federal adjusted gross income. In addition, the bill removes the restrictions that apply to age and rank in the military. Current law limits the subtraction modification to retirees aged 55 years and older who were enlisted members of the military.

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

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**Fiscal Summary**

**State Effect:** General fund revenues would decrease by \$18.5 million in FY 2000, which includes the impact in tax year 1999 and half of tax year 2000. Future year revenue losses reflect a single fiscal year's loss and 10% growth in retirement income. Expenditures would not be affected.

(in millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	(\$18.5)	(\$13.7)	(\$15.0)	(\$16.4)	(\$18.0)
GF Expenditures	0	0	0	0	0
Net Effect	(\$18.5)	(\$13.7)	(\$15.0)	(\$16.4)	(\$18.0)

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

**Local Effect:** Local piggyback revenues would decrease by \$10.5 million in FY 2000. Expenditures would not be affected.

**Small Business Effect:** None.

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## Fiscal Analysis

**State Revenues:** General fund revenues would decrease by \$6.8 million in tax year 1999. Although the tax credit is allowed for tax year 1999, it is assumed that most taxpayers will not adjust their tax withholdings to reflect the credit until after July 1, 1999. Consequently, general fund revenues are estimated to decrease by \$18.5 million in fiscal 2000, reflecting the impact of one and one-half tax years. The estimate is based on the following facts and assumptions:

- There are currently 15,539 military retirees in Maryland, of whom 9,741 were enlisted members of the military and 5,798 were officers. Average military retirement income is \$19,846.
- All retired enlisted members of the military between 55 and 64, inclusive, currently take the \$2,500 subtraction and all retired enlisted members 65 and above take the \$2,500 subtraction and an average pension exclusion of about \$14,900.
- There are 7,204 retirees under 55; 3,120 retirees between the ages of 55 and 64, inclusive; and 5,215 retirees who are 65 and older.

Out-year revenue losses reflect a single fiscal year's loss and increase by 10% annually.

**Local Revenues:** Local piggyback revenues would decrease by \$10.5 million in fiscal 2000 and \$7.8 million in fiscal 2001.

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**Information Source(s):** Comptroller of the Treasury (Bureau of Revenue Estimates), United States Statistical Abstract, United States Department of Defense (Finance and Accounting Office), Department of Legislative Services

**Fiscal Note History:** First Reader - February 16, 1999

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