

Department of Legislative Services  
 Maryland General Assembly  
 1999 Session

FISCAL NOTE

House Bill 839 (Delegate Ports. *et al.*)

Ways and Means

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

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This bill modifies the State’s pension exclusion for retirement income. The pension exclusion is a flat amount of \$19,120 for tax year 1999, \$22,340 for tax year 2000, \$25,560 for tax year 2001, \$28,780 for tax year 2002, and \$32,000 for tax year 2003 and each year thereafter. In addition, the bill expands the types of retirement income that qualify for the exclusion to include IRAs, Keoghs, or deferred compensation plans. Under current law the pension exclusion 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 year.

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

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**Fiscal Summary**

**State Effect:** General fund revenues would decrease by \$179.0 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	(\$179.0)	(\$143.4)	(\$161.2)	(\$178.2)	(\$190.0)
GF Expenditures	0	0	0	0	0
Net Effect	(\$179.0)	(\$143.4)	(\$161.2)	(\$178.2)	(\$190.0)

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

**Local Effect:** Local piggyback revenues would decrease by \$101.5 million in FY 2000 and \$81.8 million in FY 2001. Expenditures would not be affected.

**Small Business Effect:** None.

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### 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 could be as high as \$515, depending on the tax liability of the individual.

<b>State Tax Savings to Retirees from the Pension Exclusion in 1999</b>						
	Current Law			HB 839		
Types of Income	Retirement Income	IRA	SS Payments Received	Retirement Income	IRA	SS Payments Received
Amount of Income	\$13,000	\$3,000	\$8,000	\$13,000	\$3,000	\$8,000
<b>Pension Exclusion Calculation (assume max. SS benefit allowed in 1999 is \$16,500)</b>						
	Take Lessor of:			Take Flat Amount		
	\$13,000 or (\$16,500 - \$8,000)					
Pension Exclusion	\$8,500			\$19,120		
State Tax Savings	\$412			\$927		

Based on the 1996 Maryland Statistics of Income data, it is estimated that general fund revenues would decrease by about \$112.3 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 \$179.0 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 \$101.5 million in fiscal 2000 and \$81.8 million in fiscal 2001. Future year revenue losses increase by about 4% annually.

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

**Fiscal Note History:** First Reader - March 15, 1999

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