HB 71

Department of Legislative Services

Maryland General Assembly
2001 Session

FISCAL NOTE

House Bill 71 (Delegates Boutin and Stern)
Ways and Means

Income Tax - Subtraction for Retirement Income

This bill expands the types of income eligible for the pension exclusion under the Maryland income tax by making the exclusion applicable to income from a "qualified retirement plan." Under the bill, qualified retirement plan is defined to include employee retirement systems eligible under the existing exclusion, as well as other types of deferred compensation and retirement savings plans that are not eligible under the current law, such as Individual Retirement Accounts and Annuities (IRAs) and Simplified Employee Pensions (SEPs). The bill also lowers the age of eligibility for the pension exclusion from 65 to 59 1/2 years old. The bill establishes a maximum annual pension exclusion of $35,000 and eliminates the Social Security offset (the reduction of the maximum pension exclusion by the amount of Social Security received).

The bill takes effect July 1, 2001, and applies to all taxable years beginning after December 31, 2000.

Fiscal Summary

State Effect: General fund revenues would decrease by $303.3 million in FY 2002, which includes the impact of tax year 2001 and half of tax year 2002. Future year revenue decreases reflect a single fiscal year's loss and 4% growth. Expenditures would not be affected.

(in million)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
GF Revenue	($303.3)	($210.2)	($218.6)	($227.4)	($236.5)
Expenditure	$0	$0	$0	$0	$0
Net Effect	($303.3)	($210.2)	($218.6)	($227.4)	($236.5)

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

Local Effect: Local revenues would decrease by $174.4 million in FY 2001 and $122.6 million in FY 2002. Expenditures would not be affected.

Small Business Effect: None.

Analysis

Current Law: The pension exclusion applies to individuals who are at least 65 years of age or who are totally disabled. The pension exclusion is limited to income received from an employee retirement system qualified under sections 401(a), 403, or 457(b) of the Internal Revenue Code. In addition, the maximum pension exclusion is limited to the maximum annual benefit received under the Social Security Act less any Social Security or Railroad Retirement benefits received.

State Fiscal Effect: Based on the 1996 Maryland Statistics of Income data, it is estimated that general fund revenues would decrease by about $200.2 million in tax year 2001. Although the pension exclusion is expanded, the Social Security offset is eliminated, and the age of eligibility is lowered for tax year 2001, it is assumed that most taxpayers will not adjust their estimated payments to reflect the increased subtraction until after July 1, 2001. Consequently, general fund revenues are estimated to decrease by $303.3 million in fiscal 2002, reflecting the impact of one and one-half tax years. The estimate is based on the following facts and assumptions:

- for tax year 1996, approximately 83,356 joint returns were filed claiming an average pension exclusion of $7,245 while 73,479 other types of returns were filed claiming an average pension exclusion of $5,885;
- approximately 55,100 taxpayers between ages 59 1/2 and 64 will be eligible for the pension exclusion;
- the maximum annual benefit under the Social Security Act for tax year 1996 was $14,400 ($16,500 for tax year 2000); and
- the amount of the pension exclusion is expected to increase by 4% annually.

For future years, 50% of the revenue loss for a given tax year will be incurred in the first fiscal year, with the remaining 50% in the second fiscal year as taxpayers adjust their withholding and estimated payments to reflect the changes made by the bill. Future year losses are expected to increase by about 4% annually.

Local Revenues: Local revenues would decrease by approximately 2.74% (tax year 2001) to 2.75% (tax year 2004) of the total State subtraction taken each year. This results in a loss of approximately $174.4 million in fiscal 2002 (one and one-half tax years) and $122.6 million in fiscal 2003. Future year revenue losses increase by about 4% annually.

Additional Information

Prior Introductions: There have been numerous proposals over the past few sessions dealing with the income tax treatment of retirement income, including several bills introduced during the 2000 session (SB 285, HB 465, HB 475, HB 629, and HB 630 – all failed).

Cross File: None.

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

Fiscal Note History: First Reader – February 12, 2001
ncs/jr

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