

Department of Legislative Services
 Maryland General Assembly
 2003 Session

FISCAL AND POLICY NOTE

Senate Bill 29 (Senator Green, *et al.*)
 Budget and Taxation

Income Tax Exemption Amounts - Blind and Elderly Individuals

This bill increases the exemption amounts allowed for elderly or blind individuals from \$1,000 to \$2,400.

The bill takes effect July 1, 2003 and applies to all taxable years beginning after December 31, 2002.

Fiscal Summary

State Effect: General fund revenue decrease of approximately \$31.6 million in FY 2004 which reflects the impact of one and one-half tax years. Future years reflect a 1% increase in the cost of the exemption.

(in dollars)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
GF Revenue	(\$31,600,000)	(\$21,300,000)	(\$21,500,000)	(\$21,700,000)	(\$21,900,000)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$31,600,000)	(\$21,300,000)	(\$21,500,000)	(\$21,700,000)	(\$21,900,000)

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

Local Effect: Local government revenue decrease of approximately \$19.9 million in FY 2004.

Small Business Effect: None.

Analysis

Current Law: The exemption amount allowed for elderly or blind individuals is \$1,000.

Background: Prior to 1986, additional personal exemptions were allowed for blind and elderly individuals for federal income tax purposes. Because the number of exemptions allowed for federal tax purposes was incorporated into the Maryland income tax, these additional personal exemptions flowed through and were also allowed for Maryland income tax purposes. Under the federal Tax Reform Act of 1986, the additional personal exemptions were replaced for federal income tax purposes by an additional standard deduction for blind and elderly individuals, which would not flow through to the computation of the Maryland tax. In response, the General Assembly in Chapter 13 of 1987 established an additional standard deduction of \$800 for blind and elderly individuals for Maryland income tax purposes.

Chapters 8 and 9 of 1989 changed this additional standard deduction to an additional personal exemption in the amount of \$1,000, while the regular personal exemption was set at \$1,200. The amount of the additional personal exemption for elderly and blind individuals has remained at \$1,000, while the regular personal exemption amount has increased to \$2,400 for tax year 2002 and later.

State Fiscal Effect: Based on tax year 2001 income tax return data, general fund revenues could decrease by approximately \$21.0 million in tax year 2003 as a result of increasing the exemption for blind or elderly individuals from \$1,000 to \$2,400.

Although the exemption amount is increased for 2003, it is assumed that most taxpayers will adjust their withholding and estimated payments to reflect the change after July 1, 2003. Consequently, general fund revenues are estimated to decrease by \$31.6 million in fiscal 2004, reflecting the impact of one and one-half tax years.

The estimate is based on the following facts and assumptions:

- In tax year 2001, 400,852 taxpayers aged 65 and over claimed the exemption; an additional 7,777 blind taxpayers claimed the exemption.
- Approximately 23% of tax year 2001 returns for those 65 and over were nontaxable; it is assumed that a similar number of returns for blind taxpayers were nontaxable.
- In future years the cost of the exemption is estimated to increase by 1% 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.

Local Fiscal Effect: Local government revenues are estimated to decrease by approximately 63% of the State revenue loss. In fiscal 2004, it is estimated that local government revenues would decrease by approximately \$19.9 million.

Additional Information

Prior Introductions: This bill was introduced as SB 341 in the 2002 session. No action was taken by the Senate Budget and Taxation Committee. The bill was also introduced as HB 997 in the 1998 session and assigned to the House Ways and Means Committee. It was withdrawn.

Cross File: None.

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

Fiscal Note History: First Reader - January 20, 2003
ncs/mdr

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