HB 791

Department of Legislative Services

Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

House Bill 791 (Delegate Cluster, *et al.*)
Ways and Means

Income Tax − Subtraction Modification for Teachers' Retirement Income

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This bill creates a subtraction modification under the Maryland income tax for the first $5,000 in income resulting from the retirement income of a State elementary or secondary school teacher. Teacher retirement income exempted under this bill cannot be counted towards the State pension exclusion exemption.

The bill takes effect July 1, 2004 and applies to tax year 2004 and beyond.

Fiscal Summary

State Effect: General fund revenues would decrease by $4.2 million in FY 2005. Out-year revenue losses reflect a 5% annual increase in the number of eligible retirees and the estimated cost of the current pension exclusion provided for teacher retirement income. Expenditures would not be affected.

($ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	($4.2)	($4.4)	($4.6)	($4.8)	($5.1)
Expenditure	$0	$0	$0	$0	$0
Net Effect	($4.2)	($4.4)	($4.6)	($4.8)	($5.1)

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

Local Effect: Local revenues would decrease by approximately $2.6 million in FY 2005, increasing to $3.1 million by FY 2009. Expenditures would not be affected.

Small Business Effect: None.

Analysis

Current Law: There is no subtraction modification specifically for teachers' retirement income, but the retirement income received by a teacher is eligible for the State pension exclusion.

Social Security benefits received under the Railroad Retirement Act are totally exempt from the Maryland income tax, even though they may be partly taxable for federal income tax purposes. Maryland law also provides a pension exclusion subtraction for individuals who are at least 65 years old or who are totally disabled. Under the subtraction modification, some taxable pension income ($19,900 maximum for 2003) may be exempt from tax. The maximum exclusion is the maximum annual benefit under the Social Security Act and is reduced by the amount of any Social Security payments received. Thus, a retiree is allowed to deduct the lesser of: (1) the amount of pension income actually received; or (2) the maximum Social Security benefit reduced by the amount of Social Security received.

State Revenues: It is estimated that general fund revenues would decrease by about $4.2 million in tax year 2004, resulting in a general fund revenue loss of $4.2 million in fiscal 2005.

The estimate is based on the following facts and assumptions:

- there were 43,675 retirees in the State teachers' retirement and pension systems in fiscal 2003;
- based on federal Bureau and Labor Statistics data, it is estimated that 62% of the retirees in the teachers' retirement and pension systems are elementary and secondary teachers that would qualify for the proposed subtraction modification;
- for tax year 1997, approximately 38% of returns with pension income also had a pension exclusion. Therefore, it is assumed that 62% of eligible teacher retirees would claim the proposed subtraction modification; and
- the number of retirees in the State teachers' retirement and pension systems increased by approximately 5% annually from 1997 to 2003. It is assumed that this rate of increase continues from 2003 to 2008.

Local Revenues: Local revenues would decrease by approximately 2.8% of the State subtraction taken in tax year 2004. In fiscal 2005 the decrease would be approximately $2.6 million. Future year revenues decrease as the amount of the total State subtraction increases, totaling approximately $2.7 million in fiscal 2006, $2.8 million in fiscal 2007, $2.9 million in fiscal 2008, and $3.1 million in fiscal 2009.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Department of Legislative Services

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Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510