

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE

Senate Bill 435 (Senator Munson, *et al.*)
 Budget and Taxation

Income Tax Exemption Amounts – Blind and Elderly Individuals

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

The bill takes effect July 1, 2004 and applies to tax year 2005 and beyond.

Fiscal Summary

State Effect: General fund revenue decrease of approximately \$11.4 million in FY 2005 which reflects the impact of one-half of a tax year. Future years reflect annualization and a 1% increase in the number of eligible taxpayers.

(\$ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	(\$11.4)	(\$22.8)	(\$23.1)	(\$23.3)	(\$23.5)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$11.4)	(\$22.8)	(\$23.1)	(\$23.3)	(\$23.5)

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

Local Effect: Local government revenue decrease of approximately \$6.9 million in FY 2005. Local revenues decline by approximately \$13.9 million in FY 2006 and increase by approximately 1% annually thereafter.

Small Business Effect: None.

Analysis

Current Law: The additional exemption amount allowed for elderly or blind individuals is \$1,000. The regular personal exemption is \$2,400.

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 did not flow through to Maryland tax computation. In response, 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 2002 income tax return data, general fund revenues could decrease by approximately \$22.7 million in tax year 2005 as a result of increasing the exemption for blind or elderly individuals from \$1,000 to \$2,400.

It is assumed that most taxpayers will adjust their withholding and estimated payments to reflect the change after July 1, 2004. Consequently, general fund revenues are estimated to decrease by \$11.4 million in fiscal 2005, reflecting the impact of one-half of a tax year.

The estimate is based on the following facts and assumptions:

- In tax year 2002, 406,859 taxpayers aged 65 and over claimed the exemption; an additional 7,545 blind taxpayers claimed the exemption.
- Approximately 20% of tax year 2000 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 number of eligible taxpayers 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 2.8% of the total State subtraction taken. In fiscal 2005, it is estimated

that local government revenues would decrease by approximately \$6.9 million, which reflects one and one-half tax years. The out-year estimates are as follows:

Fiscal 2006: \$13.9 million

Fiscal 2007: \$14.1 million

Fiscal 2008: \$14.2 million

Fiscal 2009: \$14.4 million

Additional Information

Prior Introductions: SB 29 of 2003 received an unfavorable report from the Senate Budget and Taxation Committee. SB 341 of 2002 was not reported from the Senate Budget and Taxation Committee. HB 997 of 1998 was withdrawn after being assigned to the House Ways and Means Committee

Cross File: None designated, although HB 834 is identical.

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

Fiscal Note History: First Reader - March 22, 2004
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