

Department of Legislative Services  
 Maryland General Assembly  
 2005 Session

FISCAL AND POLICY NOTE

Senate Bill 680 (Senator Green, *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 \$1,500 in tax year 2006, and to \$2,400 in tax year 2007 and beyond.

The bill takes effect July 1, 2005 and applies to tax year 2006 and beyond.

Fiscal Summary

**State Effect:** General fund revenues could decrease by approximately \$2.0 million in FY 2006 which reflects the impact of one-quarter of a tax year. Future years reflect annualization, phase-in of the deduction, and a 1.3% increase in the number of eligible taxpayers. No effect on expenditures.

(\$ in millions)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revenue	(\$2.0)	(\$11.4)	(\$22.2)	(\$22.5)	(\$22.8)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$2.0)	(\$11.4)	(\$22.2)	(\$22.5)	(\$22.8)

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

**Local Effect:** Local income tax revenues would decrease by approximately 3.1% of the State subtraction modification taken. Local revenues would decrease by approximately \$1.3 million in FY 2006, \$7.4 million in FY 2007, \$14.5 million in FY 2008, and increase by approximately 1.3% thereafter. No effect on expenditures.

**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.

Maryland law also provides a pension exclusion subtraction for individuals who are at least 65 years old or who are totally disabled. Under this subtraction modification, up to a specified amount of taxable pension income (\$20,700 in tax year 2004) may be exempt from tax. The maximum exclusion allowed is indexed to the maximum annual benefit payable under the Social Security Act and is reduced by the amount of any Social Security payments received. The pension exclusion has been a part of the Maryland income tax since 1965.

The “Social Security offset” is the reduction in the maximum pension exclusion allowed under the current law by the individual. The Social Security offset was established at the same time as the pension exclusion. Given that Social Security benefits are exempt from Maryland income tax, the offset works to equalize the tax treatment of individuals who receive their retirement benefits from different sources by reducing the amount of allowable exclusion by the amount of Social Security benefits received.

### *Additional Income Tax Treatment for Elderly Individuals*

Social Security benefits and benefits received under the federal Railroad Retirement Act are totally exempt from the Maryland income tax, even though they may be partly taxable for federal purposes. In addition, each taxpayer over 65 or older can earn more income without being required to file a tax return.

**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:** It is assumed that one-half of taxpayers will adjust their withholding and estimated payments to reflect the change after January 1, 2006. Consequently, general fund revenues are estimated to decrease by \$2.0 million in fiscal 2006, reflecting the impact of one-quarter of a tax year.

The estimate is based on the following facts and assumptions:

- In tax year 2003, 407,794 taxpayers aged 65 and over claimed the exemption; an additional 8,908 blind taxpayers claimed the exemption.
- Approximately 24% of tax year 2003 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 1.3% annually.

For future years, 25% of the revenue loss for a given tax year will be incurred in the first fiscal year, with the remaining 75% in the following fiscal year.

**Local Fiscal Effect:** Local government revenues are estimated to decrease by approximately 3.1% of the State subtraction modification taken. Local government revenues would decrease by approximately \$1.3 million in fiscal 2006. Future year estimates are as follows:

Fiscal 2007	\$7.4 million
Fiscal 2008	\$14.5 million
Fiscal 2009	\$14.7 million
Fiscal 2010	\$14.9 million

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

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