
By: **The President (By Request - Administration) and Senators Brinkley, Colburn, Della, Garagiola, Giannetti, Green, Greenip, Hafer, Haines, Hooper, Jacobs, Kittleman, Klausmeier, Mooney, Munson, Schrader, Stoltzfus, Stone, and Teitelbaum**

Introduced and read first time: January 23, 2006

Rules suspended

Assigned to: Budget and Taxation

A BILL ENTITLED

1 AN ACT concerning

2 **Income Tax - Subtraction Modification - Military Retirement Income**

3 FOR the purpose of altering a certain subtraction modification under the Maryland
4 income tax for military retirement income over a certain period of time;
5 providing that retirement income that is included in a certain subtraction may
6 not be taken into account for purposes of a certain subtraction modification
7 allowed under the income tax for certain individuals who are at least a certain
8 age or who are disabled or have disabled spouses; defining certain terms;
9 providing for the application of this Act; and generally relating to a subtraction
10 modification for military retirement income.

11 BY repealing and reenacting, without amendments,
12 Article - Tax - General
13 Section 10-207(a)
14 Annotated Code of Maryland
15 (2004 Replacement Volume and 2005 Supplement)

16 BY repealing and reenacting, with amendments,
17 Article - Tax - General
18 Section 10-207(q) and 10-209
19 Annotated Code of Maryland
20 (2004 Replacement Volume and 2005 Supplement)

21 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF
22 MARYLAND, That the Laws of Maryland read as follows:

1 **Article - Tax - General**

2 10-207.

3 (a) To the extent included in federal adjusted gross income, the amounts under
4 this section are subtracted from the federal adjusted gross income of a resident to
5 determine Maryland adjusted gross income.

6 (q) (1) (I) IN THIS SUBSECTION THE FOLLOWING WORDS HAVE THE
7 MEANINGS INDICATED.

8 (II) "ACTIVE MILITARY SERVICE" MEANS:

9 1. INDUCTION INTO THE ARMED FORCES OF THE UNITED
10 STATES FOR TRAINING AND SERVICE UNDER THE SELECTIVE TRAINING AND
11 SERVICE ACT OF 1940 OR A SUBSEQUENT ACT OF A SIMILAR NATURE;

12 2. MEMBERSHIP IN A RESERVE COMPONENT OF THE ARMED
13 FORCES OF THE UNITED STATES;

14 3. MEMBERSHIP IN THE ACTIVE COMPONENT OF THE
15 ARMED FORCES OF THE UNITED STATES;

16 4. MEMBERSHIP IN THE MARYLAND NATIONAL GUARD; OR

17 5. WITH RESPECT TO A PERSON SEPARATED FROM
18 EMPLOYMENT ON OR AFTER JULY 1, 1991, ACTIVE DUTY WITH THE COMMISSIONED
19 CORPS OF THE PUBLIC HEALTH SERVICE, THE NATIONAL OCEANIC AND
20 ATMOSPHERIC ADMINISTRATION, OR THE COAST AND GEODETIC SURVEY.

21 (III) "MILITARY RETIREMENT INCOME" MEANS RETIREMENT
22 INCOME RECEIVED AS A RESULT OF ACTIVE MILITARY SERVICE.

23 [(1)] (2) [The] EXCEPT AS PROVIDED IN PARAGRAPH (3) OF THIS
24 SUBSECTION, THE subtraction under subsection (a) of this section includes [the first
25 \$2,500 of military retirement income received by an individual during the taxable
26 year, if the individual:

27 (i) is at least 55 years old on the last day of the taxable year; and

28 (ii) was an enlisted member of the military at the time of
29 retirement.

30 (2) The amount of the subtraction under paragraph (1) of this subsection:

31 (i) is reduced by 50% of the amount by which federal adjusted
32 gross income exceeds \$17,500; and

33 (ii) is reduced to zero if federal adjusted gross income exceeds
34 \$22,500] 100% OF MILITARY RETIREMENT INCOME RECEIVED BY AN INDIVIDUAL
35 DURING THE TAXABLE YEAR.

1 (3) FOR A TAXABLE YEAR BEGINNING BEFORE JANUARY 1, 2010, THE
2 FOLLOWING PERCENTAGE OF MILITARY RETIREMENT INCOME RECEIVED DURING A
3 TAXABLE YEAR BY AN INDIVIDUAL, WHO MEETS THE REQUIREMENTS OF
4 PARAGRAPH (1) OF THIS SUBSECTION, IS SUBTRACTED UNDER SUBSECTION (A) OF
5 THIS SECTION:

6 (I) 20% FOR A TAXABLE YEAR BEGINNING AFTER DECEMBER 31,
7 2005, BUT BEFORE JANUARY 1, 2007;

8 (II) 40% FOR A TAXABLE YEAR BEGINNING AFTER DECEMBER 31,
9 2006, BUT BEFORE JANUARY 1, 2008;

10 (III) 60% FOR A TAXABLE YEAR BEGINNING AFTER DECEMBER 31,
11 2007, BUT BEFORE JANUARY 1, 2009; AND

12 (IV) 80% FOR A TAXABLE YEAR ENDING AFTER DECEMBER 31, 2008,
13 BUT BEFORE JANUARY 1, 2010.

14 10-209.

15 (a) In this section:

16 (1) "employee retirement system" means a plan:

17 (i) established and maintained by an employer for the benefit of its
18 employees; and

19 (ii) qualified under § 401(a), § 403, or § 457(b) of the Internal
20 Revenue Code; and

21 (2) "employee retirement system" does not include:

22 (i) an individual retirement account or annuity under § 408 of the
23 Internal Revenue Code;

24 (ii) a Roth individual retirement account under § 408A of the
25 Internal Revenue Code;

26 (iii) a rollover individual retirement account;

27 (iv) a simplified employee pension under Internal Revenue Code §
28 408(k); or

29 (v) an ineligible deferred compensation plan under § 457(f) of the
30 Internal Revenue Code.

31 (b) [To] SUBJECT TO SUBSECTION (D) OF THIS SECTION, TO determine
32 Maryland adjusted gross income, if, on the last day of the taxable year, a resident is at
33 least 65 years old or is totally disabled or the resident's spouse is totally disabled, an
34 amount is subtracted from federal adjusted gross income equal to the lesser of:

1 (1) the cumulative or total annuity, pension, or endowment income from
2 an employee retirement system included in federal adjusted gross income; or

3 (2) the maximum annual benefit under the Social Security Act computed
4 under subsection (c) of this section, less any payment received as old age, survivors, or
5 disability benefits under the Social Security Act, the Railroad Retirement Act, or both.

6 (c) For purposes of subsection (b)(2) of this section, the Comptroller:

7 (1) shall determine the maximum annual benefit under the Social
8 Security Act allowed for an individual who retired at age 65 for the prior calendar
9 year; and

10 (2) may allow the subtraction to the nearest \$100.

11 (D) MILITARY RETIREMENT INCOME THAT IS INCLUDED IN THE
12 SUBTRACTION UNDER § 10-207(Q) OF THIS SUBTITLE MAY NOT BE TAKEN INTO
13 ACCOUNT FOR PURPOSES OF THE SUBTRACTION UNDER THIS SECTION.

14 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect
15 July 1, 2006, and shall be applicable to all taxable years beginning after December 31,
16 2005.