HB 261

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 261 (Delegate Boschert, *et al.*)
Ways and Means

Income Tax Exemption Amounts - Blind and Elderly Individuals

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

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

Fiscal Summary

State Effect: General fund revenues could decrease by approximately $21.6 million in FY 2007 due to higher exemption amounts being claimed by blind or elderly individuals. Future years reflect an estimated 2% increase in the number of eligible taxpayers. No effect on expenditures.

($ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	($21.6)	($22.0)	($22.4)	($22.9)	($23.3)
Expenditure	$0	$0	$0	$0	$0
Net Effect	($21.6)	($22.0)	($22.4)	($22.9)	($23.3)

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

Local Effect: Local revenues would decrease by approximately $13.6 million in FY 2007. Future year revenues would decrease by an additional 2% each year thereafter, with the decrease in local revenues totaling $14.7 million in FY 2011. 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 ($21,500 in tax year 2005) 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 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: Additional exemption amounts could be claimed beginning in tax year 2006. As a result, general fund revenues would decrease by approximately $21.6 million in fiscal 2007. General fund revenues would decrease by approximately $22.0 million in fiscal 2008, $22.4 million in fiscal 2009, $22.9 million in fiscal 2010, and $23.3 million in fiscal 2011. **Exhibit 1** shows the projected revenue loss for State and local governments.

The estimate is based on the following facts and assumptions:

- In tax year 2004, 419,120 taxpayers aged 65 and over claimed the exemption; an additional 8,020 blind taxpayers claimed the exemption.
- Approximately 27% of tax year 2003 and 2004 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 2% annually.

Local Revenues: Local revenues would decrease by approximately 3% of the total additional State exemptions taken in each tax year. In fiscal 2007 the decrease would total approximately $13.6 million. Future year revenues would decrease by approximately $13.9 million in fiscal 2008, $14.2 million in fiscal 2009, $14.4 million in fiscal 2010, and $14.7 million in fiscal 2011.

Exhibit 1
Projected State and Local Revenue Losses

	State	Local	Total
FY 2007	$21.6 million	$13.6 million	$35.2 million
FY 2008	22.0 million	13.9 million	35.9 million
FY 2009	22.4 million	14.2 million	36.6 million
FY 2010	22.9 million	14.4 million	37.3 million
FY 2011	23.3 million	14.7 million	38.0 million

Additional Information

Prior Introductions: SB 680 of 2005, a similar bill, was not reported from the Senate Budget and Taxation Committee.

Cross File: None.

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

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