

Department of Legislative Services  
Maryland General Assembly  
2007 Session

FISCAL AND POLICY NOTE

House Bill 776  
Ways and Means

(Delegate O'Donnell)

Budget and Taxation

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**Income Tax Withholding - Distributions from Deferred Compensation Plans,  
Retirement Plans, and Annuities**

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This bill allows an individual to voluntarily withhold State income taxes from a deferred employee compensation plan, individual retirement plan, or commercial annuity as described under Section 3405(E) of the Internal Revenue Code (IRC).

The bill takes effect July 1, 2007.

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**Fiscal Summary**

**State Effect:** Because the bill would apply to a limited number of instances and only at the taxpayer's discretion, State finances would not be materially affected.

**Local Effect:** None.

**Small Business Effect:** None.

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**Analysis**

**Current Law/Background:** Current law is silent as to whether or not an individual may voluntarily withhold from a distribution under Section 3405(E) of the IRC. Individuals may elect to voluntarily withhold State income taxes from an annuity or sick pay payment under Section 3402(O) of the IRC. The amount withheld is at the taxpayer's discretion.

Designated distributions under Section 3405(E) of the IRC include any distribution or payment from or under • an employer deferred compensation plan; • an individual retirement plan (as defined in Section 7701(a)(37)); or • a commercial annuity. Designated distributions do not include: • any amount which is wages; • the portion of a distribution which it is reasonable to believe is not includible in gross income; • any amount which is subject to withholding related to withholding on nonresident aliens and foreign corporations; or • any distribution under 404(k)(2) (related to specified dividends).

Lump-sum distributions that are not rolled over into another eligible retirement plan are subject to federal income tax withholding of 20% under Section 3405(C) and State income tax withholding of 7.75%. The bill would not change these required withholdings.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Internal Revenue Code, Department of Legislative Services

**Fiscal Note History:** First Reader - March 13, 2007  
ncs/hlb

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