HB 37

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 37 (Delegate Holmes, *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, 2007 and applies to tax year 2007 and beyond.

Fiscal Summary

State Effect: General fund revenues would decrease by approximately $23.4 million in FY 2008 due to higher exemption amounts being claimed by blind or elderly individuals. Future years reflect estimated annual increases in the number of eligible taxpayers. No effect on expenditures.

($ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	($23.4)	($24.4)	($25.2)	($26.1)	($27.0)
Expenditure	$0	$0	$0	$0	$0
Net Effect	($23.4)	($24.4)	($25.2)	($26.1)	($27.0)

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

Local Effect: Local revenues would decrease by approximately $14.8 million in FY 2008 and by $17.0 million in FY 2012. No effect on local 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 ($22,600 in tax year 2006) 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.

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 2007. As a result, general fund revenues would decrease by approximately $23.4 million in fiscal 2008. **Exhibit 1** lists the State and local income tax revenue decreases in fiscal year 2008 through 2012.

Exhibit 1
Projected State and Local Revenue Losses
Fiscal 2008-2012
($ in Millions)

Fiscal	State	Local	Total
2008	$23.4	$14.8	$38.2
2009	24.4	15.4	39.8
2010	25.2	15.9	41.2
2011	26.1	16.5	42.5
2012	27.0	17.0	44.0

The estimate is based on the following facts and assumptions:

- In tax year 2005, 434,697 taxpayers aged 65 and over claimed the exemption; an additional 8,246 blind taxpayers claimed the exemption.
- Approximately one-quarter of returns for those 65 and over were nontaxable in tax year 2001 through 2005; it is assumed that a similar number of returns for blind taxpayers were nontaxable.
- In future years, the number of senior taxpayers claiming an exemption is estimated to increase at the rate of growth projected by the U.S. Census Bureau for the 65 and older population, adjusted for the correlation between the change in this population and the change in the number of taxpayers claiming the additional exemption for elderly individuals. The number of blind taxpayers is assumed to increase at the same rate as the projected increase in the State's population.

Exhibit 2 lists for tax year 2007 the estimated numbers of individuals who would benefit from the bill and the maximum benefit per individual.

Exhibit 2
Beneficiaries and Estimated Maximum Benefit of HB 37
Tax Year 2007

	Maximum Income Tax Reduction Per Individual		
Number of Claimants	**State**	**Local**	**Total**
352,376	$ 66.50	$ 42.00	$108.50

Local Revenues: Local revenues would decrease by approximately 3% of the total additional State exemptions taken in each tax year. In fiscal 2008 the decrease would total approximately $14.8 million. Exhibit 1 lists the local income tax revenue decreases in fiscal 2008 through 2012.

Additional Information

Prior Introductions: Identical bills were introduced in the 2006, 2004, 2003, and 2002 sessions. HB 261 of 2006 was not reported from the House Ways and Means Committee. SB 435/HB 834 of 2004 were not reported from the Senate Budget and Taxation and House Ways and Means committees, respectively. SB 29/HB 293 of 2003 received unfavorable reports from the Senate Budget and Taxation and House Ways and Means committees, respectively. SB 341/HB 174 of 2002 were not reported from their respective committees. Similar bills were introduced in the 2006 and 2005 sessions. SB 73 of 2006 and SB 680 of 2005 were not reported from the Senate Budget and Taxation Committee.

Cross File: None.

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

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