HB 79

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

House Bill 79 (Delegate Holmes)
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 $3,200.

The bill takes effect July 1, 2008 and applies to tax year 2008 and beyond.

Fiscal Summary

State Effect: General fund revenues would decrease $35.2 million in FY 2009 due to additional blind or elderly exemptions. Future years reflect estimated annual increases in the number of eligible taxpayers. No effect on expenditures.

($ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	($35.2)	($35.6)	($36.0)	($36.4)	($36.8)
Expenditure	$0	$0	$0	$0	$0
Net Effect	($35.2)	($35.6)	($36.0)	($36.4)	($36.8)

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

Local Effect: Local revenues would decrease $22.8 million in FY 2009 and $23.8 million by FY 2013. 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. Chapter 3 of the 2007 special session altered the value of the regular personal exemption, which had been $2,400 for all individuals. Chapter 3 increased the regular personal exemption to $3,200 for individuals with FAGI of $100,000 or less ($150,000 or less for joint filers), but gradually reduced the value of the exemption as a taxpayer's FAGI exceeded specified thresholds. The exemption is reduced to $600 for individuals with FAGI in excess of $200,000 ($250,000 for joint filers).

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 ($23,600 in tax year 2007) 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 to $3,200 beginning for tax year 2008.

State Fiscal Effect: Additional exemption amounts could be claimed beginning in tax year 2008. As a result, general fund revenues would decrease by approximately $35.2 million in fiscal 2009. **Exhibit 1** lists the State and local income tax revenue decreases in fiscal 2009 through 2013.

Exhibit 1
Projected State and Local Revenue Losses
Fiscal 2009-2013
($ in Millions)

Fiscal	State	Local	Total
2009	$35.2	$22.8	$58.0
2010	35.6	23.1	58.7
2011	36.0	23.3	59.3
2012	36.4	23.6	59.9
2013	36.8	23.8	60.6

The estimate is based on the following facts and assumptions:

- In tax year 2005, 338,764 exemptions were claimed on taxable returns.
- In future years, the exemptions claimed increase by about 1% annually.

Exhibit 2 lists for tax year 2005 the estimated numbers of returns who would benefit from the bill and the maximum benefit per individual.

Exhibit 2
Beneficiaries and Estimated Maximum Benefit of HB 79
Tax Year 2005

	Maximum Income Tax Reduction Per Individual		
Number of Returns	State	Local	Total
252,653	$121.00	$70.40	$191.40

Local Revenues: Local revenues would decrease by approximately 3% of the total additional State exemptions taken in each tax year. In fiscal 2009 the decrease would total approximately $22.8 million. Exhibit 1 lists the local income tax revenue decreases in fiscal 2009 through 2013.

Additional Information

Prior Introductions: Similar bills increasing the value of the exemption have been introduced in the 2007, 2006, 2005, 2004, 2003, and 2002 sessions. SB 580 of 2007 received an unfavorable report from the Senate Budget and Taxation Committee. The cross file of SB 580, HB 37, was not reported from the House Ways and Means Committee. SB 73 of 2006 and SB 680 of 2005 were not reported from Budget and Taxation. HB 261 of 2006 was not reported from Ways and Means. SB 435/HB 834 of 2004 were not reported from Budget and Taxation and Ways and Means, respectively. SB 29/HB 293 of 2003 received unfavorable reports from Budget and Taxation and Ways and Means, respectively. SB 341/HB 174 of 2002 were not reported from their respective committees.

Cross File: None.

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

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