SB 289

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 289 (Senator Lenett, *et al.*)
Budget and Taxation

Seniors Tax Relief Act of 2008

This bill alters the additional exemption amount allowed under the Maryland income tax for elderly or blind individuals. The exemption increases from $1,000 to $2,000 for individuals with federal adjusted gross income (FAGI) up to $100,000 ($150,000 for joint filers). The exemption amount remains unchanged once these thresholds are exceeded and is reduced to zero once FAGI exceeds $200,000 for individuals ($250,000 for joint filers).

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

Fiscal Summary

State Effect: General fund revenues would decrease by $11.9 million in FY 2009 due to the proposed alteration of the blind or elderly exemption. Future years reflect estimated annual changes in the number of affected eligible taxpayers. No effect on expenditures.

($ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	($11.9)	($11.8)	($11.8)	($11.7)	($11.7)
Expenditure	$0	$0	$0	$0	$0
Net Effect	($11.9)	($11.8)	($11.8)	($11.7)	($11.7)

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

Local Effect: Local revenues would decrease by $7.8 million in FY 2009 and by $7.7 million in FY 2013. No effect on local expenditures.

Small Business Effect: None.

Analysis

Bill Summary: The bill increases the elderly and blind exemption to $2,000 for individuals with FAGI of $100,000 ($150,000 for joint filers), but eliminates the exemption as shown in **Exhibit 1**.

Exhibit 1
Proposed Blind and Elderly Exemption Values

Single		Joint	
FAGI	Exemption Value	FAGI	Exemption Value
$100,000 or less	$2,000	$150,000 or less	$2,000
$100,001-$200,000	1,000	$150,001-$250,000	1,000
over $200,000	none	over $250,000	none

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 ($150,000 for joint filers), but gradually reduces the value of the exemption as a taxpayer's FAGI exceeded specified thresholds. The exemption is reduced to $600 for individuals once an individual's FAGI exceeded $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 $11.9 million in fiscal 2009. **Exhibit 2** lists the State and local income tax revenue decreases in fiscal year 2009 through 2013.

Exhibit 2
Projected State and Local Revenue Losses
Fiscal 2009-2013
($ in Millions)

Fiscal	State	Local	Total
2009	$11.9	$7.8	$19.7
2010	11.9	7.8	19.6
2011	11.8	7.7	19.5
2012	11.7	7.7	19.4
2013	11.7	7.7	19.3

This estimate is based on the total number of aged and blind exemptions claimed on taxable returns in tax year 2005 and the FAGI reported on the tax returns claiming the exemptions. It is estimated that the number of tax returns that would benefit from the bill would decrease by 0.5% annually while the number of tax returns that would incur a tax increase would increase by 5% annually.

Exhibit 3 lists the estimated numbers of individuals who would benefit from the bill, would be unaffected, and would have a tax increase, had the bill been in effect in tax year 2005.

Exhibit 3
Estimated Impact of SB 289
Tax Year 2005

Change in Tax Liability	Returns	% All Returns	Average Change in Tax Liability: State	Local	Total
Decrease	217,779	86%	(60)	(40)	(100)
No Change	20,696	8%	0	0	0
Increase	14,178	6%	72	47	120

Local Revenues: Local revenues would decrease by approximately 3% of the total net additional State exemptions taken in each tax year. In fiscal 2009 the decrease would total approximately $7.8 million. Exhibit 2 lists the local income tax revenue decreases in fiscal 2009 through 2013.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 4, 2008
mam/hlb

Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510