

Department of Legislative Services  
 Maryland General Assembly  
 2009 Session

**FISCAL AND POLICY NOTE**

House Bill 68 (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, 2009 and applies to tax year 2009 and beyond.

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$34.2 million in FY 2010 due to additional blind or elderly exemptions. Future year revenues reflect estimated annual increases in the number of eligible taxpayers. Expenditures are not affected.

(\$ in millions)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
GF Revenue	(\$34.2)	(\$35.1)	(\$36.2)	(\$37.7)	(\$38.9)
Expenditure	0	0	0	0	0
Net Effect	(\$34.2)	(\$35.1)	(\$36.2)	(\$37.7)	(\$38.9)

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

**Local Effect:** Local revenues decrease by \$21.7 million in FY 2010 and by \$24.6 million in FY 2014. Local expenditures are not affected.

**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 federal adjusted gross income (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 (\$24,000 in tax year 2008) 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 may be claimed beginning in tax year 2009. As a result, general fund revenues will decrease by \$34.2 million in fiscal 2010. **Exhibit 1** lists decreases in the State and local income tax revenues in fiscal 2010 through 2014. The estimate is based on the following facts and assumptions:

- In tax year 2006, 336,905 blind or elderly exemptions were claimed on taxable returns.
- In future years, the exemptions claimed increase by the projected increase in the State population aged 65 years and older.

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**Exhibit 1**  
**Projected State and Local Revenue Losses**  
**Fiscal 2010-2014**  
**(\$ in Millions)**

<u>Fiscal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
2010	\$34.2	\$21.7	\$55.9
2011	35.1	22.2	57.3
2012	36.2	23.0	59.2
2013	37.7	23.8	61.5
2014	38.9	24.6	63.5

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**Local Revenues:** Local revenues will decrease by approximately 3% of the total additional State exemptions taken in each tax year. In fiscal 2010 the decrease will total \$21.7 million. Exhibit 1 lists the local income tax revenue decreases in fiscal 2010 through 2014.

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**Additional Information**

**Prior Introductions:** HB 79 of 2008, HB 37 of 2007, HB 261 of 2006, HB 834 of 2004, and HB 174 of 2002 received a hearing in the House Ways and Means Committee, but no further action was taken. SB 73 of 2006, SB 680 of 2005, SB 435 of 2004, and SB 341 of 2002 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. SB 580 of 2007 and SB 29 of 2003 received an unfavorable report from the Senate Budget and Taxation Committee. HB 293 of 2003 received an unfavorable report from the House Ways and Means Committee.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - February 6, 2009  
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