Department of Legislative Services
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 190 (Senator Lenett, *et al.*)
Budget and Taxation

Seniors Tax Relief Act

This bill increases the additional exemption amounts allowed under the Maryland income tax for elderly or blind individuals from $1,000 to $1,500 in tax year 2012, $2,350 in tax year 2013, and $3,200 in tax year 2014 and beyond.

The bill takes effect July 1, 2011, and applies to tax year 2012 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by $8.5 million in FY 2013 due to additional blind or elderly exemptions. Future year revenues reflect estimated annual increases in the number of eligible taxpayers and the exemption phase in as provided by the bill. Expenditures are not affected.

($ in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
GF Revenue	$0	$0	($8.5)	($23.6)	($39.3)
Expenditure	0	0	0	0	0
Net Effect	$.0	$.0	($8.5)	($23.6)	($39.3)

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

Local Effect: Local revenues decrease by $5.5 million in FY 2013 and by $24.9 million in FY 2015. 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. The exemption is estimated to reduce fiscal 2010 revenues by $15.6 million in fiscal 2010. 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 ($24,500 in tax year 2009) 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 pension exclusion is estimated to reduce fiscal 2010 revenues by about $100.0 million.

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. Exempting 100% of all Social Security benefits instead of conforming to federal law is estimated to reduce fiscal 2010 revenues by about $126.9 million.

In addition to these income tax benefits, 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.

State Revenues: Additional exemption amounts may be claimed beginning in tax year 2012. As a result, general fund revenues will decrease by $8.5 million in fiscal 2013. **Exhibit 1** lists the decreases in State and local income tax revenues in fiscal 2013 through 2015. The estimate is based on the following facts and assumptions:

- In tax year 2006, slightly more than 344,000 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.
- Taxpayers do not adjust withholdings.

Exhibit 1
Projected State and Local Revenue Losses
Fiscal 2013-2015
($ in Millions)

Fiscal	State	Local	Total
2013	$8.5	$5.5	$14.0
2014	23.6	15.0	38.6
2015	39.3	24.9	64.3

Local Revenues: Local revenues will decrease by approximately 3% of the total additional State exemptions taken in each tax year. In fiscal 2013 the decrease will total $5.5 million. Exhibit 1 lists the local income tax revenue decreases in fiscal 2013 through 2015.

Additional Information

Prior Introductions: HB 240 of 2009 was not reported from the House Ways and Means Committee. Similar bills have been introduced since the 2002 session. 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: HB 658 (Delegate Gilchrist, *et al.*) - Ways and Means.

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

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