

Department of Legislative Services
2012 Session

FISCAL AND POLICY NOTE

House Bill 874
Ways and Means

(Delegate Aumann, *et al.*)

Income Tax - 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 2014, \$2,350 in tax year 2015, and \$3,200 in tax year 2016 and beyond.

The bill takes effect July 1, 2013, and applies to tax year 2014 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by \$8.5 million in FY 2015 due to increased exemptions for blind and elderly individuals. Future year revenue estimates reflect projected annual increases in the number of eligible taxpayers and the exemption phase in specified by the bill. Expenditures are not affected.

| (\$ in millions) | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|------------------|---------|---------|---------|----------|----------|
| GF Revenue | \$0 | \$0 | (\$8.5) | (\$23.1) | (\$37.1) |
| Expenditure | 0 | 0 | 0 | 0 | 0 |
| Net Effect | \$0 | \$0 | (\$8.5) | (\$23.1) | (\$37.1) |

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

Local Effect: Local revenues decrease by \$5.4 million in FY 2015 and by \$23.4 million in FY 2017. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: The additional income tax exemption amount allowed for elderly or blind individuals is \$1,000. The exemption is estimated to reduce State revenues by \$17.3 million in fiscal 2012. 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 modification 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 (\$26,300 maximum for 2011) 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 is estimated to reduce State revenues by \$103.4 million in fiscal 2012.

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 is estimated to reduce State revenues by about \$140.0 million in fiscal 2012.

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 the 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 deduction to an additional personal exemption in the amount of \$1,000, while the regular personal exemption was set at \$1,200.

State Revenues: Increased exemption amounts may be claimed beginning in tax year 2014. As a result, general fund revenues will decrease by \$8.5 million in

fiscal 2015. **Exhibit 1** lists the decreases in State and local income tax revenues in fiscal 2015 through 2017. This 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 will 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 2015-2017
(\$ in Millions)

| <u>Fiscal</u> | <u>State</u> | <u>Local</u> | <u>Total</u> |
|---------------|--------------|--------------|--------------|
| 2015 | \$8.5 | \$5.4 | \$13.9 |
| 2016 | 23.1 | 14.6 | 37.7 |
| 2017 | 37.1 | 23.4 | 60.5 |

Local Revenues: Local revenues will decrease by about 3% of the total additional net State exemptions taken in each tax year. In fiscal 2015, the decrease will total \$5.4 million. Exhibit 1 lists the local income tax revenue decreases in fiscal 2015 through 2017.

Additional Information

Prior Introductions: SB 190 of 2010 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. Its cross file, HB 658, received a hearing in the House Ways and Means Committee, but no further action was taken. HB 240 of 2009 received a hearing in the House Ways and Means Committee, but no further action was taken. Similar bills have been introduced since the 2002 session.

Cross File: None.

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

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mlm/jrb

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