HB 1355

Department of Legislative Services
2014 Session

FISCAL AND POLICY NOTE

House Bill 1355 (Delegate Glass, *et al.*)
Ways and Means

Income Tax - Subtraction Modification - Department of Defense Survivor Benefits Program

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This bill creates a subtraction modification against the State income tax for payments received under a U.S. Department of Defense survivor benefits program.

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

Fiscal Summary

State Effect: General fund revenues decrease by about $730,000 in FY 2015 due to qualified survivor benefit payments being exempted against the State income tax. Future year revenue decreases reflect the estimated number of eligible taxpayers. General fund expenditures increase by $48,000 in FY 2015 for one-time tax form changes and computer programming modifications at the Comptroller's Office.

(in dollars)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GF Revenue	($730,000)	($752,000)	($775,000)	($798,000)	($822,000)
GF Expenditure	$48,000	$0	$0	$0	$0
Net Effect	($778,000)	($752,000)	($775,000)	($798,000)	($822,000)

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

Local Effect: Local revenues decrease by $461,000 in FY 2015 and by $519,000 in FY 2019. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: Payments received under the U.S. Department of Defense Survivor Benefit Program are generally taxable under the federal income tax.

Individuals may exempt the first $5,000 of military retirement income from State and local taxation. Payments received under a U.S. Department of Defense survivor benefit plan qualify for the State subtraction modification.

Maryland law also provides a pension exclusion subtraction modification for individuals who are at least age 65 or who are totally disabled. Up to a specified maximum amount of taxable pension income ($27,800 maximum for 2013) 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. Military retirement income exempted under the subtraction modification cannot be counted toward the State pension exclusion.

Background: The primary U.S. Department of Defense survivor benefit applicable to survivors of retirees (and, in some situations, active duty members) is the Uniformed Services Survivor Benefit Plan. A related plan, the Reserve Component Survivor Benefit Plan, is available to members of the U.S. Armed Forces reserves. These voluntary programs ensure that survivors continue to receive income throughout their lifetimes. In 2012, the survivor annuity was 55% of the member's base amount, which is elected by the member. These annuities are generally reduced by any Department of Veterans Affairs survivor benefits. In 1972, the Survivor Benefit Plan replaced an earlier plan, the Retired Servicemen's Family Protection Plan (RSFPP), which was established in 1953. RSFPP still covers those servicemen retired before 1972 who did not convert to the new plan or who retained RSFPP in conjunction with the Survivor Benefit Plan.

According to the Defense Manpower Data Center (DMDC), 7,020 survivors in Maryland received a total of $8.1 million in survivor benefit payments from the Department of Defense in September 2012. According to DMDC, 6,013 of these beneficiaries were at least 65 years old and received an average annual payment of $14,200. A total of 1,007 beneficiaries not aged 65 years old received an average annual payment of $11,215.

State Revenues: The bill creates a subtraction modification against the State income tax for payments received under a U.S. Department of Defense survivor benefits program beginning with tax year 2014. As a result, fiscal 2015 revenues will decrease by $730,000.

This estimate is based on the number of beneficiaries receiving Survivor Benefits Program payments, the estimated cost of the current military retirement income subtraction modification, and the interaction with the State pension exclusion. Based on data from the U.S. Census Bureau, it is estimated that about 15% of tax returns are not taxable.

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of $48,000 in fiscal 2015 to add the subtraction modification to the personal income tax return. This includes data processing changes to the SMART income tax return processing and imaging systems and system testing.

Local Revenues: Local income tax revenues decrease by about 3% of the total net State subtraction modification claimed. Local income tax revenues may decrease by $461,000 in fiscal 2015, $475,000 in fiscal 2016, $489,000 in fiscal 2017, $504,000 in fiscal 2018, and $519,000 in fiscal 2019.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): U.S. Census Bureau, U.S. Congressional Budget Office, Comptroller's Office, Defense Manpower Data Center, U.S. Department of Defense (Office of Actuary), Military.com, Department of Legislative Services.

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