

Department of Legislative Services
2014 Session

FISCAL AND POLICY NOTE

House Bill 1359
Ways and Means

(Delegate Glass, *et al.*)

**Income Tax - Subtraction Modification - Law Enforcement Officer Survivor
Benefits Program**

This bill specifies that the existing State income tax subtraction modification that exempts payments from a pension system to the surviving spouse or other beneficiary of a law enforcement officer who is killed in the line of duty includes survivor benefits paid to the surviving spouse of a law enforcement officer.

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

Fiscal Summary

State Effect: General fund revenues may decrease minimally beginning in FY 2015 due to specified survivor benefit payments being exempted from the State income tax. No effect on expenditures.

Local Effect: Local income tax revenues may decrease minimally beginning in FY 2015. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: Any amount paid as a survivor annuity to the spouse, former spouse, or child of a public safety officer killed in the line of duty is exempt under the federal income tax if the annuity is provided under a qualified governmental plan and to the extent that the annuity is attributable to service as a public safety officer. Public safety officers include law enforcement officers, firefighters, rescue squads, and ambulance crews. The exclusion does not apply under certain circumstances. Any amounts

excluded under the federal income tax under this provision are also exempted under the State income tax.

The State income tax also exempts payments from a pension system to the surviving spouse or other beneficiary of a law enforcement officer or firefighter whose death arises out of or in the course of employment.

Background: A surviving spouse of a law enforcement officer killed in the line of duty receives from the State Retirement and Pension System a lump sum payment of the member's accumulated contributions and one year of compensation and an allowance equal to two-thirds of the retiree's average final compensation. If there is no surviving spouse, the benefit is payable in equal amounts to the retiree's surviving minor children. In addition, the surviving spouse or minor children are entitled to a supplemental benefit payment by the State Retirement and Pension System that is based on Social Security survivor benefits.

The surviving spouse, child, dependent parent, or estate of law enforcement officers killed in the line of duty may be entitled to the following one-time payments:

- A death benefit of \$50,000 for law enforcement officers killed in the line of duty since July 1, 2000, paid by the Department of Budget and Management (DBM).
- A death benefit of \$125,000 (plus an inflation adjustment) for law enforcement officers killed in the line of duty since January 1, 2006, paid by the Department of Public Safety and Correctional Services (DPSCS).
- Up to a \$10,000 funeral benefit, paid by DPSCS.

State/Local Revenues: The bill exempts survivor benefits paid to the surviving spouse of a law enforcement officer who is killed in the line of duty beginning with tax year 2014. As a result, general fund revenues may decrease minimally beginning in fiscal 2015.

DBM advises that it has made three one-time survivor benefit payments to beneficiaries of law enforcement officers killed in the line of duty. To the extent these one-time survivor benefit payments made by DBM, DPSCS, or other entities are taxable, general fund revenues and local income tax revenues will decrease minimally in any year in which the payments are made.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Budget and Management, Maryland State Retirement Agency, Department of Public Safety and Correctional Services, Department of Legislative Services

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