

Department of Legislative Services  
 Maryland General Assembly  
 2020 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 1361  
 Ways and Means

(Delegate Brooks, *et al.*)

Income Tax - Subtraction Modification for Centenarians

This bill creates a subtraction modification against the State income tax for an individual who is at least 100 years of age. The maximum value of the subtraction modification is equal to \$50,000 of the income received by an individual. **The bill takes effect July 1, 2020, and applies to tax year 2020 and beyond.**

Fiscal Summary

**State Effect:** General fund revenues decrease by \$550,000 annually beginning in FY 2021 due to subtraction modifications claimed against the personal income tax. General fund expenditures increase by \$56,000 in FY 2021 due to one-time implementation costs at the Comptroller’s Office.

| (in dollars)   | FY 2021     | FY 2022     | FY 2023     | FY 2024     | FY 2025     |
|----------------|-------------|-------------|-------------|-------------|-------------|
| GF Revenue     | (\$550,000) | (\$550,000) | (\$550,000) | (\$550,000) | (\$550,000) |
| GF Expenditure | \$56,000    | \$0         | \$56,000    | \$0         | \$0         |
| Net Effect     | (\$606,000) | (\$550,000) | (\$606,000) | (\$550,000) | (\$550,000) |

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

**Local Effect:** Local revenues decrease by \$350,000 annually beginning in FY 2021. Local expenditures are not affected.

**Small Business Effect:** None.

## Analysis

### Current Law/Background:

#### *Tax Benefits for Elderly Individuals*

Maryland law provides a pension exclusion (in the form of a subtraction modification) for individuals who are at least 65 years old or who are totally disabled. Under this subtraction modification, up to a specified maximum amount of taxable pension income (\$31,100 for 2019) 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 (Social Security offset).

Additional retirement income may be exempted if the individual has qualified U.S. military, law enforcement, correctional officer, fire, rescue, or emergency services personnel retirement income.

Social Security benefits are exempt from Maryland income tax even though benefits are partially taxable for federal purposes.

In addition to the special treatment of Social Security and other retirement income, additional income tax relief is provided to senior citizens regardless of the source of their income. Each individual age 65 and older is allowed a \$1,000 personal exemption in addition to the regular personal exemption allowed for all individuals. According to the Department of Budget and Management, in fiscal 2020 these benefits will reduce State revenues by \$620.6 million and local income tax revenues by \$351.5 million.

#### *Centenarians in Maryland and Tax Issues*

According to the U.S. Census Bureau, in calendar 2010 a total of 911 Marylanders were at least 100 years of age, including 6 individuals who were at least 110 years of age. A little more than 8 in 10 of these individuals were women.

According to published reports, certain life insurance policies have contracts that cash out once the policy holder reaches 100 years of age. In contrast to life insurance death benefits paid to the policyholder's beneficiaries, the benefits paid to the policyholder are typically subject to federal and State taxation.

**State Revenues:** The bill creates a subtraction modification against the State income tax for an individual who is at least 100 years of age. According to the Comptroller's Office, in tax year 2018 a total of 850 taxpayers who were at least 100 years of age filed a tax return, of whom 410 will benefit from the proposed subtraction modification. As a result,

State income tax revenues will decrease by about \$550,000 annually beginning in fiscal 2021.

**State Expenditures:** The Comptroller's Office reports that it will incur a one-time general fund expenditure increase of \$56,000 in fiscal 2021 to add the subtraction modification to the personal income tax forms. This includes data processing changes to the income tax return processing and imaging systems and systems testing.

**Local Revenues:** Local income tax revenues decrease as a result of additional income exempted against the personal income tax. Local revenues decrease by about \$350,000 annually beginning in fiscal 2021.

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### **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

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

**Fiscal Note History:** First Reader - March 2, 2020  
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