

Department of Legislative Services
 Maryland General Assembly
 2023 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 83 (Senator Jackson)
 Budget and Taxation

**Income Tax Subtraction Modification – Military and Public Safety Retirement
 Income**

This bill increases, from \$15,000 to \$20,000, the maximum value of the military retirement income subtraction modification for individuals age 55 and older. The change applies to tax year 2023 and beyond. The bill also increases, from \$15,000 to \$17,500 for tax year 2023 and \$20,000 for tax year 2024 and beyond, the maximum value of the public safety retirement income subtraction modification for retired correctional officers, law enforcement officers, and fire, rescue, and emergency services personnel. **The bill takes effect July 1, 2023, and applies to tax year 2023 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$6.97 million in FY 2024; future years reflect the phased increase in the value of the public safety retirement income subtraction and projected growth in eligible retirement income. Expenditures are not affected.

(\$ in millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GF Revenue	(\$6.97)	(\$8.31)	(\$8.64)	(\$8.99)	(\$9.35)
Expenditure	0	0	0	0	0
Net Effect	(\$6.97)	(\$8.31)	(\$8.64)	(\$8.99)	(\$9.35)

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

Local Effect: Local revenues decrease by \$4.50 million FY 2024, \$5.35 million in FY 2025, and similar amounts annually thereafter, as discussed below. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law:

Military Retirement Income Subtraction

An individual may exclude from Maryland adjusted gross income certain military retirement income, including death benefits, received as a result of (1) induction into the U.S. Armed Forces for training and service under the Selective Training and Service Act of 1940 or a similar subsequent act; (2) membership in an active or reserve component of the U.S. Armed Forces; (3) membership in the Maryland National Guard; or (4) active duty with the commissioned corps of the Public Health Service, the National Oceanic and Atmospheric Administration, or the Coast and Geodetic Survey.

The maximum value of the subtraction modification is \$15,000 for an individual age 55 or older and \$5,000 for an individual younger than age 55. (Under the bill, the maximum value of the subtraction modification for an individual age 55 or older increases to \$20,000 beginning in tax year 2023.)

As discussed below, an individual who is at least age 65, is totally disabled, or whose spouse is totally disabled may qualify for and claim the standard State pension exclusion for retirement income that is not excluded under the military retirement income subtraction.

Public Safety Retirement Income Subtraction

Chapters 3 and 4 of 2022 authorize, beginning with tax year 2022, an individual age 55 or older to exclude from Maryland adjusted gross income the first \$15,000 of eligible retirement income attributable to employment as a correctional officer, law enforcement officer, or fire, rescue, or emergency services personnel. Emergency services personnel includes emergency medical technicians and paramedics. (Under the bill, the maximum value of the subtraction modification increases to \$17,500 for tax year 2023 and \$20,000 for tax year 2024 and beyond.) As discussed below, an individual who is age 65 or older, is totally disabled, or whose spouse is totally disabled may qualify for and claim the standard State pension exclusion for retirement income that is not excluded under this retirement income subtraction.

The subtraction authorized under Chapters 3 and 4 replaced a retirement income subtraction modification available under prior law for retired law enforcement officers, correctional officers, and fire, rescue, and emergency services personnel ages 55 to 64 who were not otherwise eligible to claim the State pension exclusion. The maximum value of the subtraction modification was indexed to the maximum annual benefit payable under the Social Security Act and was reduced by the amount of any benefit payments received

under the Social Security Act or Railroad Retirement Act; the maximum subtraction was further limited to \$15,000 after these adjustments. Chapter 39 of 2022 extended eligibility for this subtraction modification to retired forest rangers, park rangers, and wildlife rangers ages 55 to 64. (Under the bill, existing provisions relating to the retirement income subtraction for retired forest rangers, park rangers, and wildlife rangers are unaffected.)

Maryland Pension Exclusion

Under the Maryland pension exclusion, an individual who is at least age 65, who is totally disabled, or whose spouse is totally disabled may subtract certain taxable pension and retirement annuity income from federal adjusted gross income for purposes of determining Maryland adjusted gross income. The maximum value of the subtraction is indexed to the maximum annual benefit payable under the Social Security Act (\$34,300 for 2022) and is reduced by the amount of any benefit payments received under the Social Security Act or Railroad Retirement Act (“Social Security offset”).

Senior Tax Credit

Chapters 3 and 4 establish a nonrefundable tax credit against the State income tax for a resident who is age 65 or older and whose federal adjusted gross income does not exceed \$100,000 (\$150,000 if filing jointly or as a surviving spouse or head of household). The amount of the tax credit is equal to (1) \$1,000 or (2) \$1,750 for surviving spouses, heads of household, and joint filers if both spouses are at least age 65. The credit is available beginning tax year 2022. For a tax year in which the September general fund estimate issued by the Board of Revenue Estimates for the current fiscal year is more than 7.5% below the March general fund estimate issued in the same year, the value of the tax credit is reduced for specified taxpayers.

Other Tax Relief for Seniors

Social Security benefits and benefits received under the federal Railroad Retirement Act are totally exempt from the Maryland income tax, though they may be partly taxable for federal income tax purposes. Other income tax relief is provided to senior citizens regardless of the source of their income; in addition to the regular personal exemption available to all taxpayers, individuals age 65 and older may claim an additional exemption of \$1,000.

State/Local Revenues: State general fund revenues and local income tax revenues decrease beginning in fiscal 2024 due to increases in the value of subtraction modifications claimed against Maryland income tax. **Exhibit 1** displays the bill’s estimated effect on State and local revenues in fiscal 2024 through 2028. As shown in the exhibit, in fiscal 2024, the bill’s enhancements to the military and public safety retirement income

subtraction modifications reduce State general fund revenues by \$5.85 million and \$1.11 million, respectively, and local income tax revenues by \$3.8 million and \$0.7 million, respectively. Future years reflect (1) the additional increase in the maximum value of the public safety retirement income subtraction beginning with tax year 2024 and (2) projected growth in eligible retirement income. These estimates are based on tax year 2021 claims for the existing public safety and military retirement income subtraction modifications, adjusted to reflect an anticipated increase in the number of eligible claimants for the public safety retirement income subtraction as a result of Chapters 3 and 4.

Exhibit 1
Effect on State and Local Revenues
Fiscal 2024-2028
(\$ in Millions)

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
State Effect	(\$6.97)	(\$8.31)	(\$8.64)	(\$8.99)	(\$9.35)
<i>Military</i>	(5.85)	(6.09)	(6.33)	(6.58)	(6.85)
<i>Public Safety</i>	(1.11)	(2.22)	(2.31)	(2.40)	(2.50)
Local Effect	(4.50)	(5.35)	(5.56)	(5.78)	(6.01)
<i>Military</i>	(3.80)	(3.96)	(4.12)	(4.28)	(4.45)
<i>Public Safety</i>	(0.70)	(1.39)	(1.44)	(1.50)	(1.56)
Total Effect	(\$11.47)	(\$13.65)	(\$14.20)	(\$14.77)	(\$15.36)

Note: Numbers may not sum to total due to rounding.

Source: Comptroller's Office; Department of Legislative Services

Additional Information

Prior Introductions: Similar legislation has been introduced within the last three years. See SB 130 and HB 461 of 2022; SB 370 and HB 951 of 2021; and SB 488 of 2020.

Designated Cross File: HB 15 (Delegate Rogers) - Ways and Means.

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

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