

Department of Legislative Services
 Maryland General Assembly
 2023 Session

FISCAL AND POLICY NOTE
 First Reader

Senate Bill 319 (Senator Brooks, *et al.*)
 Budget and Taxation

**Income Tax - Subtraction Modification - Individuals At Least 75 Years Old
 (Diamond Income Reduction Act)**

This bill expands eligibility for an existing subtraction modification under Maryland income tax (that, under current law, is available for individuals who are age 100 or older), to include individuals who are age 75 or older. Thus, for purposes of determining Maryland adjusted gross income, an individual who is at least 75 years old at the close of the taxable year may subtract up to \$100,000 of income received by the individual during the taxable year. **The bill takes effect July 1, 2023, and applies to tax year 2023 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by an estimated \$473.1 million in FY 2024. Future years reflect projected increases in eligible subtractions. Expenditures are not affected.

(\$ in millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GF Revenue	(\$473.1)	(\$477.3)	(\$487.2)	(\$492.6)	(\$502.1)
Expenditure	0	0	0	0	0
Net Effect	(\$473.1)	(\$477.3)	(\$487.2)	(\$492.6)	(\$502.1)

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

Local Effect: Local revenues decrease by an estimated \$342.5 million in FY 2024 and similar amounts annually thereafter. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: Chapter 291 of 2022 authorized a subtraction modification against the Maryland income tax for individuals who are at least 100 years of age at the close of the taxable year. The maximum value of the subtraction is equal to \$100,000 of income received by the individual. (*Under the bill*, the subtraction is available to individuals who are at least 75 years of age at the close of the taxable year.)

In addition, State law provides for various other tax relief for seniors, as discussed below.

Senior Tax Credit

Chapters 3 and 4 of 2022 established 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 in tax year 2022.

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”).

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 Revenue: State general fund revenues and local income tax revenues decrease significantly beginning in fiscal 2024, due to additional subtraction modifications claimed against Maryland income tax. **Exhibit 1** shows the bill’s estimated effect on State and local revenues in fiscal 2024 through 2028. As shown in the exhibit, in fiscal 2024, State general

fund revenues decrease by an estimated \$473.1 million, and local income tax revenues decrease by an estimated \$342.5 million. Future years reflect projected growth in eligible subtractions.

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	(\$473.1)	(\$477.3)	(\$487.2)	(\$492.6)	(\$502.1)
Local Effect	(\$342.5)	(\$345.6)	(\$352.7)	(\$356.7)	(\$363.6)
Total Effect	(\$815.6)	(\$822.9)	(\$839.9)	(\$849.3)	(\$865.7)

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

Source: Comptroller's Office; Department of Legislative Services

This estimate is based on historical State income tax data as analyzed by the Comptroller's Office and the Bureau of Revenue Estimate's most recent personal income tax forecast.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

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

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km/hlb

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