Department of Legislative Services

Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 422 (Senator Rosapepe)
Budget and Taxation

Income Tax - Subtraction Modification - Foreign Service Retirement Income

This bill authorizes a subtraction modification against the personal income tax for retirement income from the Foreign Service Retirement and Disability System (FSRDS) or the Foreign Service Pension System (FSPS) received as a result of employment in the foreign service of the United States. The maximum value of the subtraction modification is $12,500 for individuals younger than age 55 on the last day of the tax year and $20,000 for individuals age 55 or older on the last day of the tax year. Foreign service retirement income that is excluded under the bill may not be taken into account for purposes of the standard State pension exclusion. **The bill takes effect July 1, 2024, and applies to tax year 2024 and beyond.**

Fiscal Summary

State Effect: *Under one set of assumptions*, general fund revenues may decrease by an estimated $935,000 in FY 2025, as discussed below. Future years reflect assumed growth in eligible subtraction modifications. The Comptroller's Office can implement the bill's provisions with existing budgeted resources.

(in dollars)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GF Revenue	($935,000)	($954,000)	($973,000)	($993,000)	($1,012,000)
Expenditure	0	0	0	0	0
Net Effect	($935,000)	($954,000)	($973,000)	($993,000)	($1,012,000)

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

Local Effect: *Under one set of assumptions*, local revenues may decrease by an estimated $610,000 in FY 2025 and similar amounts annually thereafter. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: State law does not provide for a subtraction modification for foreign service retirement income, specifically; however, such income may be eligible for exclusion under the State standard pension exclusion, as discussed below. The bill is modeled on the existing subtraction modification for military retirement income, which is limited to the first $12,500 of military retirement income received by an individual younger than age 55 and the first $20,000 of military retirement income received by an individual age 55 or older.

Maryland Pension Exclusion

Under Maryland's standard 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 ($36,200 for 2023) and is reduced by the amount of any benefit payments received under the Social Security Act or Railroad Retirement Act ("Social Security offset").

Social Security benefits and benefits received under the federal Railroad Retirement Act are totally exempt from Maryland income tax, though they may be partly taxable for federal income tax purposes. Other income tax relief provided to seniors include an additional exemption of $1,000 for individuals age 65 and older (in addition to the regular personal exemption) as well as the senior tax credit for qualifying taxpayers age 65 and older.

State/Local Revenues: State general fund revenues and local income tax revenues decrease beginning in fiscal 2025 due to increases in the value of subtraction modifications claimed against Maryland income tax. The Department of Legislative Services and the Comptroller's Office lack data on the number of FSRDS and FSPS annuitants in Maryland and their eligible foreign service retirement income. Assuming that (1) Maryland's share of FSRDS and FSPS annuitants mirrors Maryland's share of Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) annuitants and (2) average annual benefit payments to FSRDS and FSPS annuitants mirror average annual benefit payments to CSRS and FERS annuitants, respectively, State general fund revenues may decrease by an estimated $935,000 in fiscal 2025, and local income tax revenues may decrease by an estimated $610,000 in fiscal 2025.

Exhibit 1 displays the bill's estimated effect on State and local revenues in fiscal 2025 through 2029. Future years reflect assumed 2% annual growth in eligible taxpayers.

Exhibit 1
Effect on State and Local Revenues
Fiscal 2025-2029

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
State Effect	($935,000)	($954,000)	($973,000)	($993,000)	($1,012,000)
Local Effect	(610,000)	(623,000)	(635,000)	(648,000)	(661,000)
Total Effect	**($1,545,000)**	**($1,577,000)**	**($1,608,000)**	**($1,641,000)**	**($1,673,000)**

Source: Department of Legislative Services

Additional Information

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

Designated Cross File: None.

Information Source(s): Comptroller's Office; U.S. Department of State; Congressional Research Service; Department of Legislative Services

Fiscal Note History: First Reader - January 29, 2024
js/hlb

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