Department of Legislative Services

Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 30 (Senator Bailey)
Budget and Taxation

Income Tax - Subtraction Modification - Public Safety Employee Retirement Income

This bill increases the maximum value of the income tax subtraction modification for public safety employee retirement income from $15,000 to $20,000. **The bill takes effect July 1, 2025, and applies to tax year 2025 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by an estimated $1.6 million in FY 2026. Future years reflect projected growth in eligible subtraction modifications. The Comptroller's Office can implement the bill's changes with existing budgeted resources.

($ in millions)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
GF Revenue	($1.6)	($1.6)	($1.7)	($1.7)	($1.8)
Expenditure	0	0	0	0	0
Net Effect	($1.6)	($1.6)	($1.7)	($1.7)	($1.8)

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

Local Effect: Local income tax revenues decrease by an estimated $1.3 million in FY 2026 and by similar amounts annually thereafter. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: As authorized by Chapters 3 and 4 of 2022, an individual who is at least 55 years old on the last day of the tax year may claim a subtraction modification against the personal income tax for the first $15,000 of income received from an employee retirement system (within the meaning of the State's standard pension exclusion, as discussed below) that is attributable to service as a public safety employee. "Public safety employee" means an individual who is a retired correctional officer; law enforcement officer; or fire, rescue, or emergency services personnel of the United States, the State, or a political subdivision of the State. 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 public safety employee retirement income subtraction.

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 ($39,500 for 2024) and is reduced by the amount of any benefit payments received under the Social Security Act or Railroad Retirement Act ("Social Security offset").

The pension exclusion is limited to income received from an "employee retirement system," which is defined as a plan (1) established and maintained by an employer for the benefit of its employees and (2) qualified under § 401(a), § 403, or § 457(b) of the Internal Revenue Code. This includes defined benefit and defined contribution pension plans, 401(k) plans, 403(b) plans, and 457(b) plans. Public safety employee retirement income that is excluded under the public safety employee retirement income subtraction modification is not taken into account for purposes of the standard pension exclusion.

Other Tax Relief for Retirees and Seniors

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 2026 due to increases in the value of subtraction modifications claimed against the personal income tax. **Exhibit 1** displays the bill's estimated effect on State and local revenues in fiscal 2026 through 2030. As shown in the exhibit, in fiscal 2026, State general fund revenues decrease by an estimated $1.6 million, and local income tax revenues decrease by an estimated $1.3 million. Future years reflect projected growth in eligible public safety employee retirement income. This estimate is based on an analysis of tax year 2023 claims for the existing public safety employee retirement income subtraction modification.

Exhibit 1
Effect on State and Local Revenues
Fiscal 2026-2030
($ in Millions)

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
State Effect	($1.6)	($1.6)	($1.7)	($1.7)	($1.8)
Local Effect	(1.3)	(1.3)	(1.4)	(1.4)	(1.4)
Total Effect	**($2.9)**	**($3.0)**	**($3.0)**	**($3.1)**	**($3.2)**

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

Source: Department of Legislative Services

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See SB 588 and HB 714 of 2024.

Designated Cross File: None.

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

Fiscal Note History: First Reader - January 13, 2025
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