HB 355

Department of Legislative Services

Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 355 (Delegate Grammer, *et al.*)
Ways and Means

Income Tax - Subtraction Modification - Retirement Income

This bill alters the State subtraction modification for retirement income (Maryland pension exclusion) by altering the value of the exclusion and expanding the sources of retirement income that are eligible for the exclusion. By tax year 2027, the value of the exclusion is equal to 100% of eligible retirement income; the change is phased in over three tax years (30% in tax year 2025 and 60% in tax year 2026). Under the bill, the value of the pension exclusion is not reduced by the amount of any benefit payments received under the Social Security Act or Railroad Retirement Act, as required under existing law. **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 $57.5 million in FY 2026. Future years reflect phased increases in the value of the pension exclusion and projected growth in eligible retirement income. 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	($57.5)	($375.1)	($677.9)	($711.8)	($747.4)
Expenditure	0	0	0	0	0
Net Effect	($57.5)	($375.1)	($677.9)	($711.8)	($747.4)

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

Local Effect: Local revenues decrease by an estimated $35.8 million in FY 2026, $233.5 million in FY 2027, $422.0 million in FY 2028, and similar amounts annually thereafter. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Bill Summary: Retirement income sources that are newly eligible for the pension exclusion under the bill include (1) individual retirement accounts (IRAs) and annuities under § 408 of the Internal Revenue Code (IRC); (2) Roth IRAs under § 408A of the IRC; (3) rollover IRAs; and (4) simplified employee pensions under § 408(k) of the IRC.

Current Law:

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"). As Social Security benefits are exempt from Maryland income tax (though partially taxable for federal income tax purposes), the offset works to equalize the tax treatment of individuals who receive retirement benefits from different sources.

The pension exclusion is limited to income received from an employee retirement system. "Employee retirement system" 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 IRC. This includes defined benefit and defined contribution pension plans, 401(k) plans, 403(b) plans, and 457(b) plans. However, IRAs and annuities under § 408 of the IRC, Roth IRAs under § 408A of the IRC, simplified employee pensions under § 408(k) of the IRC, and ineligible deferred compensation plans under § 457(f) of the IRC are excluded from the definition of an employee retirement system and, thus, ineligible for the pension exclusion.

Exhibit 1 shows the types of eligible and ineligible retirement income under the pension exclusion.

Senior Tax Credit

Chapters 3 and 4 of 2022 established a nonrefundable tax credit against the State income tax, beginning in tax year 2022, 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. 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.

Exhibit 1
Eligible and Ineligible Retirement Plans under the Pension Exclusion

Eligible	**Ineligible**
• 401(k) Cash or Deferred Arrangement Plans	• Traditional IRAs
• 403(b) Plans	• Rollover IRAs
• 457(b) Plans	• Roth IRAs
• Thrift Savings Plans	• Keogh Plans
• Savings Incentive Match Plan for Employees Retirement Plans under § 401(k) of the IRC	• Simplified Employee Pensions
	• Savings Incentive Match Plan for Employees Retirement Plans under § 408 of the IRC

IRA: individual retirement account
IRC: Internal Revenue Code

Source: Department of Legislative Services

Other Tax Relief for 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 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: As discussed above, the bill significantly alters the Maryland pension exclusion by (1) expanding the eligible sources of retirement income and (2) altering the maximum value of the exclusion. By tax year 2027, the value of the exclusion is equal to 100% of eligible retirement income.

As a result, State general fund revenues and local income tax revenues decrease significantly beginning in fiscal 2026. **Exhibit 2** shows 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 $57.5 million, and local income tax revenues decrease by an estimated $35.8 million. Future years reflect phased increases in the value of the pension exclusion in tax years 2026 and 2027 and projected growth in eligible retirement income.

Exhibit 2
Effect on State and Local Revenues
Fiscal 2026-2030
($ in Millions)

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
State Effect	($57.5)	($375.1)	($677.9)	($711.8)	($747.4)
Local Effect	(35.8)	(233.5)	(422.0)	(443.1)	(465.3)
Total Effect	**($93.3)**	**($608.6)**	**($1,099.9)**	**$1,154.9)**	**($1,212.7)**

Source: Comptroller's Office; Department of Legislative Services

Due to taxpayer confidentiality requirements, the Department of Legislative Services (DLS) does not have access to income tax return data. This estimate is based on the results of the Comptroller's Office's most recent analysis of this proposal using State and federal income tax return data for tax years 2019 through 2021, including information reported on Maryland form 502R and federal forms 1099-R and SSA-1099. The Comptroller's Office has previously advised DLS that personal income tax revenues have been volatile since tax year 2019, with volatility distributed unevenly across income cohorts. Thus, actual revenue losses under the bill may differ from the above estimate.

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See HB 674 of 2024; HB 125 of 2023; and HB 499 of 2022.

Designated Cross File: None.

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

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