MDCEP
MARYLAND CENTER ON ECONOMIC POLICY

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Further Tax Cuts Based on Age Rather than Need Will Make Maryland Worse Off

Position Statement in Opposition to House Bill 61

Given before the House Ways and Means Committee

Sufficient tax revenue is essential for supporting the investments that make Maryland a good place to live, work and spend one's golden years. Additional tax cuts on retirement income would result in financial gain primarily for the wealthiest households, while costing the state more than $2 billion over the next five years. While it is important to support retirees who struggle to make ends meet, as well as people with disabilities, costly across-the-board tax breaks on retirement income are more likely to harm low-income seniors than help them. For these reasons, the Maryland Center on Economic Policy opposes House Bill 61.

Maryland has underinvested in the foundations of our communities, such as health care, transportation, and education, since the Great Recession. That gap is expected to widen as today's outdated tax code falls further behind Marylanders' unmet needs. The aging of our population is an important contributor, bringing higher health care costs as well as lower wages—which mean less tax revenue—as young workers replace retirees.[i] Insufficient revenue growth will make it more difficult for us to invest in things that make Maryland an inviting place to retire, such as accessible transportation options and high-quality long-term care. House Bill 61 would make these investments even harder, ultimately harming the people the bill is intended to benefit.

The truth is, Maryland already offers larger tax breaks to older adults than most other states, including exemptions for pension and Social Security income and an enhanced personal exemption. Altogether, a married couple in Maryland over age 65 could deduct up to $58,400 as of 2015.[ii] State tax breaks for older Marylanders totaled more than $400 million in FY 2018, according to the Department of Budget and Management.[iii] House Bill 61 would nearly triple that cost.

The Department of Legislative Services estimates that House Bill 61 will cost the state more than $750 million per year when fully phased in, with an additional $500 million per year cost to local governments.[iv] This takes away resources the state and local governments need to provide public services older adults rely on, such as high-quality health care, as well as things like world-class public schools that lay the groundwork for the kind of state most older Marylanders want for their children and grandchildren.

Further, it is likely the greatest share of those benefits would go to wealthier retirees. Low- and moderate-income households and people of color face barriers that make it harder for them to put away a nest egg for retirement. Research shows that white households are more likely than Black, Hispanic, or Asian households to have money in the kind of retirement accounts that would get additional tax breaks under House Bill 61.[v] Structuring the tax breaks as deductions further tilts the scales toward wealthy households, providing meager benefits for lower-income seniors who pay more in sales and property taxes than income taxes. This legislation would likely increase the racial wealth gap by granting greater benefits to those who have significant assets in tax-advantaged retirement accounts and who have high enough income to owe significant income taxes.

While many older Marylanders face financial hardship, this is not true across the board—and House Bill 61 would do little for seniors who could use the most help. Among Maryland households headed by a person age 65 or older, 22 percent had less than $25,000 in annual income in 2018, nearly 120,000 households altogether. Meanwhile, 13 percent of senior Maryland households (about 72,000) had income of $150,000 or more.[vi] About 16 percent of Maryland tax filers with income less than $25,000 did not owe state income tax in 2016, compared to 0.1 percent of those with income of at least $150,000.[vii] House Bill 61 would provide the latter group with significant benefits, while doing little to offset the sales and property taxes lower-income households pay.

Expanding tax breaks that primarily benefit wealthy households would shift resources away from important public services that Marylanders of all ages rely on. Lawmakers should focus on policies that help Marylanders who need it most and strengthen our economy in the long run. Reforming the tax breaks Maryland offers aging adults would help the state provide these essential services while continuing to protect older Marylanders who struggle to make ends meet. House Bill 61 would do the opposite.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the House Ways and Means Committee make an unfavorable report on House Bill 61.

Equity Impact Analysis: House Bill 61

Bill summary

Once fully phased in in 2022, House Bill 61 would expand tax exemptions for any income from most types of retirement plans, allowing claimers to deduct the full value of such income rather than only a portion of it. It also expands the types of accounts eligible for the exemption to include other types of retirement accounts that aren't tied to employment, such as IRAs.

Background

Maryland's income tax system already has special treatment for multiple types of retirement income. Social Security benefits are exempt from the income tax, and Marylanders over age 65 receive an additional $1,000 personal exemption. In addition, recent changes exempted the first $15,000 in annual retirement income for those who served in the U.S. military, law enforcement, or emergency services.

As the Center on Budget and Policy Priorities points out: "Today's retirees spent their working years in a time of rapidly growing income and wealth inequality. With the lion's share of income going to the minority of people at the top, low- and moderate-income families face barriers to setting aside a nest egg for retirement."

Workers of color are much less likely have a job that provides retirement benefits than their white counterparts. Only 54 percent of Black and Asian workers and 38 percent of Latinx workers are in jobs with a retirement plan, compared to 62 percent of white workers.

In addition, people of color often face additional barriers, such as employment and housing discrimination, that have made it harder for them to build wealth over time. As a result, the median net worth of white families is 10 times that of Black families and eight times that of Latinx families.

Equity Implications

Creating broad exemptions for retirement income will double down on the existing wealth and income inequality that already exists:

- Because the proposed exemption is essentially unlimited, the greatest share of the tax benefits will go to seniors who are already very well-off.
- Black, Latinx, and Asian households are less likely to have these type of retirement accounts and therefore less likely to benefit from the income tax exemption proposed in House Bill 61.
- This costly proposal would take away much-needed state resources that now support essential state investments. While the state could make different choices in the future, historically, such significant budget cuts have disproportionately affected services in low-income communities and communities of color, including services that that older Marylanders in these communities rely on.

Impact

House Bill 61 would likely **worsen racial and economic equity** in Maryland.

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[i] The Impact of Age Demographics on Maryland's Economic and Tax Revenue Outlook, Maryland Bureau of Revenue Estimates, https://finances.marylandtaxes.gov/static_files/revenue/BRE_reports/FY_2018/BRE%20Report%20on%20Age%20Demographics.pdf

[ii] "State Tax Preferences for Elderly Taxpayers." November 28, 2016.Institution on Taxation and Economic Policy. Retrieved from http://itep.org/itep_reports/2016/11/state-tax-preferences-for-elderly-taxpayers.php#.WJIx8_krIdU

[iii] FY 2018 Tax Expenditure Report, Department of Budget and Management, https://dbm.maryland.gov/budget/taxexpendreports/FiscalYear2018Tax%20ExpenditureReport.pdf

[iv] Maryland Department of Legislative Services, Fiscal and Policy Note for House Bill 61, http://mgaleg.maryland.gov/2020RS/fnotes/bil_0001/hb0061.pdf

[v] "States Should Target Senior Tax Breaks Only to Those Who Need Them, Free up Funds for Investments," Center on Budget and Policy Priorities, June 2019.
https://www.cbpp.org/research/state-budget-and-tax/states-should-target-senior-tax-breaks-only-to-those-who-need-them

[vi] MDCEP analysis of American Community Survey 2018 one-year estimates.

[vii] MDCEP analysis of Maryland TY 2016 Statistics of Income, Maryland Comptroller's Office, https://www.marylandtaxes.gov/reports/static-files/revenue/statisticsofincome/individual/2016_Personal_SOI.pdf
Includes all ages. "Income refers to Maryland adjusted gross income, which is generally somewhat lower than total income.