SB49 Pension Exclusion Testimony 2023 (1).pdf
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Dear Chairwoman Guzzone, Vice-chair Rosapepe and members of the Senate Budget & Taxation Committee:

I would like to thank you for the opportunity to testify before you on SB49, Income Tax – Subtraction Modification – Retirement Income.

My life has been thoroughly shaped by my exposure to the small family business my father started in our basement many years ago. Two of the primary lessons I learned as a youth were the power of discipline and self-reliance. As such, I made it a point to attempt to stay disciplined, emphasis on attempt with the goal of being self-reliant as I became an adult. This led me to start my own grass cutting business in the neighborhood. My first foray into my own small business. Back in those days my father always told me to take my earnings and save them for the future. It is during this stage of my life I was first introduced to IRAs or individual retirement accounts. Now, back in the early 90s, the maximum contribution limit was $2,000 far less than it is today. But, in subsequent years it has increased to $6,000. Proof that the need to fund one's own retirement has been interwoven into the Internal Revenue Code or IRC.

I relay this story to you because I have discovered in my work as a tax professional that this story is not that uncommon. There are many kids, now adults that charted similar courses with the same end goal of saving for the future in order to become self-reliant. After the grass cutting business, I eventually went to work for the family business and then after graduate's school a larger accounting firm that offered traditional or qualified retirement plans to its staff.

But, there was a downside. Unfortunately, by virtue of the fact that I opened up an account many years ago on my own and not through an employer sponsored plan it would not be classified as a "Qualified Plan" as defined by code section 401 of the IRC. Therefore, I and many other just like me, would not be eligible to take full advantage of the pension exclusion offered by the State of Maryland when a taxpayer reaches the age of sixty-five. The IRA I opened as a youngster can potentially cause me significant tax burden since I chose to follow my entrepreneurial instincts to leave the traditional firm and go back to running the family firm.

Furthermore, I believe it appropriate to look at some numbers available regarding national employment:

- US Bureau of Labor and Statistics states 10% of the US workforce or nearly 15 million people are self-employed. And, the self-employed hire one out of four workers in the United States
- Less than half of US workers participated in an employer sponsored plan
- Pew Charitable Trust – 35% of workers over the age of 22 don't work for employers that offer qualified retirement plans

Therefore, we can conclude that access to qualified plans is not equally available to all of the employees and/or entrepreneurs of this great land. And, HB 189 helps to remedy some of the inequity that comes from a lack of access. Small businesses and the self-employed often times simply don't have the resources to offer these kinds benefits. Furthermore, retirees don't have the option to rollover their assets into qualified plans.

I support, HB 189 because it allows individuals who were previously in qualified retirement plans the ability to rollover their retirement money into a non-qualified plan without losing the tax characteristics and benefits associated with qualified plans. This rewards people with discipline and self-motivation with the same exclusion available to their counterparts working for larger firms without punishing them for their circumstances. Furthermore, I support this bill because expanding access to the pension exclusion for those citizens who have earned it not only creates equity, but helps to promote the need for retirement security for a large subsection of our society.

I thank you for the opportunity to speak.

Benjamin Brooks, Jr.

Managing-Member of B&R Brooks, LLC

THE SENATE OF MARYLAND
ANNAPOLIS, MARYLAND 21401

TESTIMONY IN SUPPORT OF SB49
Income Tax-Subtraction Modification- Retirement Income

Budget & Taxation Committee
January 19, 2023

Chair Guzzone, Vice-Chair Rosapepe and Members of the Committee,

Thank you for the opportunity to testify before you on SB49, Income Tax-Subtraction Modification- Retirement Income. The purpose of this bill is to expand the pension exclusion currently available on qualified defined benefit and defined contribution pension plans, 401(k) plans, 403(b) plans, and 457(b) plans to rollover IRA's or annuities if the contributions consist entirely of the tax-free rollover of distributions from an employee retirement system.

Currently, Maryland law provides a pension exclusion (in the form of a subtraction modification) for individuals who are at least 65 years old or who are totally disabled. Under this subtraction modification, up to a specific maximum amount of taxable pension income ($34,300 for 2022) may be exempt for tax. The maximum allowed is indexed to the maximum annual benefit payable under the Social Security Act and is reduced by the amount of any Social Security payments received (Social Security offset).

Under current law, traditional IRA, Roth IRA, Simplified Employee Plans (SEP) and Keogh Plans do not qualify. This bill is a reasonable solution to the unequal treatment of income from employer-sponsored retirement plans that are rolled over into IRA's. This bill extends that tax relief for distributions from qualitied rollovers to non-qualified plans.

This subtraction modification will provide much needed tax relief to those taxpayers who have had their defined benefit plans shifted to defined contributions systems, whether by their choice or as a forced transfer. Contributions made to these types of deferred accounts are subject to the same withdrawal restrictions and early withdrawal penalties that are applicable to qualified pension, tax saving annuity and deferred compensation plans.

This exclusion was originally enacted to benefit federal employees. Prior to 1984, federal employees were covered under the Civil Service Retirement System, and, as a result, they did not participate in the Social Security program. At the same time, because the federal government does not tax social security, this flows through to State taxes and

Maryland does not tax social security. In the 1960's federal employees raised the issue that this was not equitable as they paid taxes on their pensions but retirees who retired on social security did not.

The pension exclusion was enacted to remedy this inequity and allowed retirees (not just federal retirees) to exempt from Maryland tax an amount equal to the maximum social security amount minus any social security received. Since 1984, federal employees were covered by social security and the prior inequity no longer exists.

Further, The Federal Tax Cuts and Jobs Act of 2017 was signed into law on December 22, 2017, and enacted significant changes to federal taxes, including the personal income tax. Several of the Act's provisions impact State income taxes. As a result, the Office of the Comptroller prepared a 60 Day Report on the estimated impact on the State of Maryland. This report reflects that 13% of the State's population, saw increased federal tax of $782 million.

However, because the State and local tax (SALT) works in concert with the federal code, Marylanders were limited to $10,000 deduction for property and State and local taxes paid. The impact to Maryland is a windfall of approximately $483 million for FY2022 and $499 million for FY2023 into the state's general fund. This dividend will offset the fiscal note associated with providing the much-needed pension exclusion to non-qualified plans.

SB49 offers some fairness to Maryland retirees. For these reasons, I am requesting a favorable report.

With kindest regards,

Benjamin T. Brooks

Benjamin Brooks

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Position: FAV

Maryland State Firemen's Association

Representing The Volunteer Fire, Rescue, And EMS Personnel of Maryland.

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SB 49 Income Tax – Subtraction Modification – Retirement Income

My name is Robert Phillips and I am the Legislative Committee Chairman for the Maryland State FireFighters Association (MSFA)

I wish to present testimony in favor of **Senate Bill 49: Income Tax – Subtraction Modification – Retirement Income**

This legislation modifies the language to allow the inclusion of a distribution from an individual retirement account or an annuity established under § 408 of the Internal Revenue Code to be treated as income from an employee retirement system. This modification would not penalize the employee who decided this was their way of providing for their retirement.

I thank the committee for their time and attention to this important bill and ask that you vote favorable on Senate Bill 49.

My contact information is listed above and welcome any further inquiries you might have.

SB 49 Income Tax Substraction Modification Retirem
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SB 49 Income Tax - Subtraction Modification - Retirement Income
Support
Senate Budget and Taxation Committee
January 19, 2023

Good afternoon Chair Guzzone and members of the Senate Budget and Taxation Committee. My name is Tammy Bresnahan. I am the Director of Advocacy for AARP MD. AARP is the largest nonprofit, nonpartisan organization representing the interests of Americans age 50 and older and their families. Key priorities of our organization include helping all Marylanders achieve financial and health security. AARP MD and its almost 870,000 members support SB 49 Income Tax-Subtraction Modification- Retirement Income. We thank Senator Brooks for introducing this bill.

AARP is working hard to strengthen retirement security for all Americans by ensuring that workers and retirees have access to their hard earned and hard saved dollars. In a recent survey of over 1700 AARP Maryland members, 60 percent responded that maintaining their retirement savings should be an AARP legislative priority.

The rising cost of essential necessities, including groceries, utilities, and prescription drugs, is of significant concern for millions of Marylanders, especially for older and retired Marylanders living on fixed incomes. Older Marylanders on fixed incomes clearly feel the effects of inflation more than the rest of us. These retirees bear a disproportionate brunt of drug and medical inflation, which is significantly higher than overall inflation. We made strides in 2022 by allowing Medicare to negotiate with big drug companies, but as you know it will only gradually go into effect.

Maryland's retirees currently pay federal income taxes, as well as significant state and local income taxes, and motor fuel taxes, sales taxes, and property taxes. A vast number of older Marylanders also fully support or contribute financially to the well-being of their children and grandchildren, as well as act as primary caregivers to their parents and spouses. They also feel that they have limited options for rejoining the workforce and virtually no time horizon to increase their savings. Reducing taxes on retirement income will provide Maryland's retirees with extra dollars to care for their loved one's needs and help with food, housing, transportation and medical costs.

Within our state, Marylanders over age 50 create an economic impact much greater than their portion of the population. As the percentage of state residents over 50 continues to grow, so will their contributions to our economy. According to "Longevity Economy," a report prepared by Oxford Economics for AARP, Marylanders 50 and older generated 39 percent of the state's gross domestic product in 2018, totaling $163 billion. Moreover, the report found that state residents 50 and older made up just 36 percent of Maryland's population in 2018 but supported 1.6 million or 44 percent of jobs across the state and 38 percent of state and local taxes in the amount of $15 billion.

AARP Maryland looks forward to working with all of you in enacting and implementing policies addressed in SB 49 - that preserve and support this economic engine in our state and helps to ensure that older Marylanders can live their retirement years with dignity and independence. We will continue corresponding with our members to make certain they understand the various policy proposals being discussed and how they address the needs of older Marylanders and their families.

AARP Maryland respectfully requests a favorable report for SB 49. Thank you.

For questions or additional information, please feel free to contact Tammy Bresnahan, State Director of Advocacy at tbresnahan@aarp.org or by calling 410-302-8451.

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Senate Bill 49

Income Tax - Subtraction Modification - Retirement Income

MACo Position: **OPPOSE**

To: Budget and Taxation Committee

Date: January 19, 2023

From: Kevin Kinnally

Tax Incentives and Local Government Autonomy

Counties are eager and committed partners in promoting economic growth and creating opportunity – and prefer local autonomy in determining the best way locally. The Maryland Association of Counties (MACo) opposes state-mandated reductions in local revenue sources, but county governments welcome flexible and optional tools to serve and react to local needs and community priorities.

The General Assembly routinely considers broad or targeted tax incentives to stimulate economic growth, encourage beneficial activities, or attract and retain residents. These proposals sometimes focus exclusively on the State's tax structure, but often extend to local revenues as well.

In general, MACo stands for local self-determination. Counties, led by locally elected leaders directly accountable within the communities they serve, are best positioned to govern local affairs – ranging from land use to fiscal matters. MACo steadfastly guards this local autonomy and consistently advocates against one-size-fits-all policies that override local decision-making.

State tax incentives should be enacted as "local option" offerings to allow counties maximum flexibility in tailoring local policies to meet local needs and priorities. The State and its local governments already work together here – where the State routinely grants a state-level property tax credit, enabling county governments to enact their own as a local option.

MACo urges the Committee to primarily consider state income tax credits as the best means to incorporate local tax relief as part of a broader policy. MACo and county governments stand ready to work with state policymakers to craft flexible and optional tools to deliver broad or targeted tax incentives but resist state-mandated changes that preclude local input.