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Legislative Document

No. 1413

S.P. 463

In Senate, April 12, 2021

An Act To Provide Equity in the State Income Tax Deduction for Certain Public Employees Retirement System Pensions

Received by the Secretary of the Senate on April 8, 2021. Referred to the Committee on Taxation pursuant to Joint Rule 308.2 and ordered printed.

A handwritten signature in black ink, appearing to read "D M Grant", is positioned above the printed name of the Secretary of the Senate.

DAREK M. GRANT
Secretary of the Senate

Presented by Senator RAFFERTY of York.
Cosponsored by Representative MILLETT of Cape Elizabeth and
Senator: BALDACCI of Penobscot, Representatives: BABBIDGE of Kennebunk, ROCHE of
Wells, STEARNS of Guilford.

1 **Be it enacted by the People of the State of Maine as follows:**

2 **Sec. 1. 36 MRSA §5122, sub-§2, ¶C-1** is enacted to read:

3 C-1. For tax years beginning on or after January 1, 2021:

4 (1) For each individual who is a primary recipient of civil service retirement plan
5 benefits, the lesser of:

6 (a) The aggregate of civil service retirement plan benefits included in the
7 individual's federal adjusted gross income; and

8 (b) The civil service pension deduction amount reduced by the total amount
9 of the individual's social security benefits and railroad retirement benefits paid
10 by the United States, but not less than \$0;

11 (2) For purposes of this paragraph, "civil service pension deduction amount"
12 means:

13 (a) For the tax year beginning in 2021, \$15,000;

14 (b) For the tax year beginning in 2022, \$20,000;

15 (c) For the tax year beginning in 2023, \$25,000;

16 (d) For the tax year beginning in 2024, \$30,000; and

17 (e) For tax years beginning on or after January 1, 2025, the maximum annual
18 benefit that an individual retiring at the retirement age, as defined in 42 United
19 States Code, Section 416(l), during January of the tax year may receive under
20 the federal Social Security Act; and

21 (3) For the purposes of this paragraph, "primary recipient" and "retirement plan
22 benefits" have the same meanings as under paragraph M-2, subparagraph (2);

23 **Sec. 2. 36 MRSA §5122, sub-§2, ¶M-2**, as amended by PL 2017, c. 170, Pt. H,
24 §3, is further amended to read:

25 M-2. For tax years beginning on or after January 1, 2016:

26 (1) For each individual who is a primary recipient of retirement plan benefits, the
27 reduction is the sum of:

28 (a) Excluding military retirement plan benefits, an amount that is the lesser of:

29 (i) The aggregate of retirement plan benefits under employee retirement
30 plans or individual retirement accounts included in the individual's federal
31 adjusted gross income; and

32 (ii) The pension deduction amount reduced by the total amount of the
33 individual's social security benefits and railroad retirement benefits paid
34 by the United States and, for tax years beginning on or after January 1,
35 2021, also reduced by any civil service retirement plan benefits for which
36 a subtraction is allowed under paragraph C-1, but not less than \$0; and

37 (b) An amount equal to the aggregate of retirement benefits under military
38 retirement plans included in the individual's federal adjusted gross income;
39 and

(2) For purposes of this paragraph, the following terms have the following meanings.

(a) "Employee retirement plan" means a state, federal or military retirement plan or any other retirement benefit plan established and maintained by an employer for the benefit of its employees under the Code, Section 401(a), Section 403 or Section 457(b), except that distributions made pursuant to a Section 457(b) plan are not eligible for the deduction provided by this paragraph if they are made prior to age 55 and are not part of a series of substantially equal periodic payments made for the life of the primary recipient or the joint lives of the primary recipient and that recipient's designated beneficiary.

(a-1) "Civil service retirement plan benefits" means:

(i) Retirement plan benefits received under Title 5, Part 20 excluding pick-up contributions for which a subtraction is allowed under paragraph E; or

(ii) Retirement plan benefits received under a retirement plan of another state government, local government or the Federal Government as a result of service for that government.

"Civil service retirement plan benefits" does not include benefits from a military retirement plan.

(b) "Individual retirement account" means an individual retirement account under Section 408 of the Code, a Roth IRA under Section 408A of the Code, a simplified employee pension under Section 408(k) of the Code or a simple retirement account for employees under Section 408(p) of the Code.

(c) "Military retirement plan" means retirement plan benefits received as a result of service in the active or reserve components of the United States Army, Navy, Air Force, Marines or Coast Guard.

(d) "Pension deduction amount" means \$10,000.

(e) "Primary recipient" means the individual upon whose earnings or contributions the retirement plan benefits or civil service retirement plan benefits are based or the surviving spouse of that individual.

(f) "Retirement plan benefits" means employee retirement plan benefits, except pick-up contributions for which a subtraction is allowed under paragraph E, reported as pension or annuity income for federal income tax purposes and individual retirement account benefits reported as individual retirement account distributions for federal income tax purposes. "Retirement plan benefits" does not include distributions that are subject to the tax imposed by the Code, Section 72(t) or, for tax years beginning on or after January 1, 2021, civil service retirement plan benefits for which a subtraction is allowed under paragraph C-1;

SUMMARY

This bill establishes an income tax exemption for civil service retirement plan benefits for recipients who do not participate in the federal social security program in recognition

1 of the fact that the current law provides an income exemption for all social security benefits
2 in addition to a \$10,000 pension exemption for retirement plan benefits. The bill phases in
3 greater parity in treatment of the 2 types of pension systems by increasing the civil service
4 pension deduction amount by \$5,000 per year until 2025 when it reaches the maximum
5 annual benefit that an individual retiring at retirement age would receive under the federal
6 Social Security Act.