

**TESTIMONY OF
MICHAEL J. ALLEN, ASSOCIATE COMMISSIONER FOR TAX POLICY
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

Before the Joint Standing Committee on Taxation
Hearing Date: *May 18, 2023*

LD 1882 – “*An Act to Increase the Deduction from Income for Pension Benefits*”

Senator Grohoski, Representative Perry, and members of the Taxation Committee – good afternoon, my name is Michael Allen, Associate Commissioner for Tax Policy in the Department of Administrative and Financial Services. I am providing testimony at the request of the Administration Against LD 1882, “*An Act to Increase the Deduction from Income for Pension Benefits.*”

The bill proposes to increase the maximum Maine pension income deduction for non-military retirement plan benefits from \$30,000 to \$35,000 for tax years beginning in 2023 and from \$35,000 to \$50,000 for tax years beginning on or after January 1, 2024.

Currently, for tax years beginning in 2023, the maximum pension income deduction for non-military pension income is limited to \$30,000 reduced by the amount of social security benefits received by the taxpayer. The maximum pension income deduction is increased to \$35,000 reduced by the amount of social security benefits received by the taxpayer for tax years beginning on or after January 1, 2024. Social security benefits and military retirement pay are fully exempt from Maine individual income tax.

The current pension deduction was designed to complement the exemption of all social security benefits. In 2023, the maximum social security benefit is \$3,627 a month or \$43,524 a year. If the maximum pension deduction is

increased, it should match the maximum social security benefit to bring parity between social security beneficiaries and state employee pension benefits.

The fiscal year 2022-2023 Supplemental Budget significantly increased the pension deduction. We estimate those changes will reduce fiscal year 2024 and fiscal year 2025 revenues by \$50 million and \$63 million, respectively

The estimated revenue impact of this bill is not currently available.

The estimated administrative costs are nominal and can be absorbed by the Bureau.

The Administration looks forward to working with the Committee on the bill; representatives from MRS will be here for the Work Session to provide additional information and respond in detail to the Committee's questions.