

# MAINE STATE LEGISLATURE

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# 123rd MAINE LEGISLATURE

## FIRST REGULAR SESSION-2007

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Legislative Document

No. 206

H.P. 177

House of Representatives, January 16, 2007

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**An Act To Provide an Inflation Adjustment to the Income Tax  
Exemption for Private, Public and Military Pensions**

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Reference to the Committee on Taxation suggested and ordered printed.

*Millicent M. MacFarland*  
MILLICENT M. MacFARLAND  
Clerk

Presented by Representative CROCKETT of Augusta.  
Cosponsored by Senator SAVAGE of Knox and  
Representatives: CLARK of Millinocket, FLETCHER of Winslow, MILLS of Farmington,  
PATRICK of Rumford, TIBBETTS of Columbia, WATSON of Bath, Senators: DAMON of  
Hancock, MARRACHÉ of Kennebec.

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

2 **Sec. 1. 36 MRSA §5122, sub-§2, ¶M,** as amended by PL 2005, c. 218, §53, is  
3 further amended to read:

4 M. For each individual who is a primary recipient of pension benefits under an  
5 employee retirement plan, an amount that is the lesser of:

6 (1) Six thousand dollars plus an annual inflation adjustment reduced by the total  
7 amount of the individual's social security benefits and railroad retirement benefits  
8 paid by the United States, but not less than \$0. The reduction does not apply to  
9 benefits paid under a military retirement plan; or

10 (2) The aggregate of pension benefits under employee retirement plans included  
11 in the individual's federal adjusted gross income.

12 For purposes of this paragraph, the following terms have the following meanings.  
13 "Primary recipient" means the individual upon whose earnings the employee  
14 retirement plan benefits are based or the surviving spouse of that individual.  
15 "Pension benefits" means employee retirement plan benefits reported as pension or  
16 annuity income for federal income tax purposes. "Employee retirement plan" means  
17 a state, federal or military retirement plan or any other retirement benefit plan  
18 established and maintained by an employer for the benefit of its employees under the  
19 Code, Section 401(a), Section 403 or Section 457(b), except that distributions made  
20 pursuant to a Section 457(b) plan are not eligible for the deduction provided by this  
21 paragraph if they are made prior to age 55 and are not part of a series of substantially  
22 equal periodic payments made for the life of the primary recipient or the joint lives of  
23 the primary recipient and that recipient's designated beneficiary. "Employee  
24 retirement plan" does not include an individual retirement account under Section 408  
25 of the Code, a Roth IRA under Section 408A of the Code, a rollover individual  
26 retirement account, a simplified employee pension under Section 408(k) of the Code  
27 or an ineligible deferred compensation plan under Section 457(f) of the Code.  
28 Pension benefits under an employee retirement plan do not include distributions that  
29 are subject to the tax imposed by the Code, Section 72(t). "Military retirement plan"  
30 means benefits received as a result of service in the active or reserve components of  
31 the Army, Navy, Air Force, Marines or Coast Guard. "Inflation adjustment" means  
32 the Consumer Price Index as defined in section 5402, subsection 1 for the year ending  
33 on the September 30th immediately preceding the calculation date, divided by the  
34 Consumer Price Index for the prior year ending September 30th. On or about  
35 November 15th of each year, the State Tax Assessor shall calculate the adjusted  
36 deduction amount by multiplying the deduction in effect on the calculation date by  
37 the inflation adjustment. If the adjusted deduction amount is not a multiple of \$10,  
38 any increase must be adjusted to the next lowest multiple of \$10 and become  
39 effective for the following income tax year;

40 **Sec. 2. Application.** That section of this Act that amends the Maine Revised  
41 Statutes, Title 36, section 5122, subsection 2, paragraph M applies to tax years beginning  
42 on or after January 1, 2007.

**SUMMARY**

1

2       This bill requires the amount of the deduction from income received as pension  
3 benefits to be adjusted annually based on the Consumer Price Index.