

MAINE STATE LEGISLATURE

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No. 422

H.P. 338

House of Representatives, January 29, 2007

An Act To Increase the State Income Tax Exemption for Retired Employees in the Maine State Retirement System and Other Pension Systems to the Same Level as That of Retirees under the Social Security System

Reference to the Committee on Taxation suggested and ordered printed.

Millicent M. MacFarland
MILLICENT M. MacFARLAND
Clerk

Presented by Representative MAZUREK of Rockland.
Cosponsored by Senator DAMON of Hancock and
Representatives: BLANCHETTE of Bangor, CRAVEN of Lewiston, FINCH of Fairfield,
HANLEY of Gardiner, HOGAN of Old Orchard Beach, MARLEY of Portland, NORTON of
Bangor, PATRICK of Rumford.

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 reduced by the total amount of the individual's social~~
7 ~~security benefits and railroad retirement benefits paid by the United States, but~~
8 ~~not less than \$0.~~ The maximum social security benefit reduced by the total
9 amount of the individual's social security benefits and railroad retirement
10 benefits paid by the United States, but not less than \$0, except that this reduction
11 does not apply to benefits paid under a military retirement plan. The assessor by
12 June 15th of each year shall determine the amount of the deduction and
13 incorporate the change, if any, into the income tax forms, instructions and
14 withholding tables for the taxable year; or

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

17 For purposes of this paragraph, the following terms have the following meanings.
18 "Primary recipient" means the individual upon whose earnings the employee
19 retirement plan benefits are based or the surviving spouse of that individual.
20 "Pension benefits" means employee retirement plan benefits reported as pension or
21 annuity income for federal income tax purposes. "Employee retirement plan" means
22 a state, federal or military retirement plan or any other retirement benefit plan
23 established and maintained by an employer for the benefit of its employees under the
24 Code, Section 401(a), Section 403 or Section 457(b), except that distributions made
25 pursuant to a Section 457(b) plan are not eligible for the deduction provided by this
26 paragraph if they are made prior to age 55 and are not part of a series of substantially
27 equal periodic payments made for the life of the primary recipient or the joint lives of
28 the primary recipient and that recipient's designated beneficiary. "Employee
29 retirement plan" does not include an individual retirement account under Section 408
30 of the Code, a Roth IRA under Section 408A of the Code, a rollover individual
31 retirement account, a simplified employee pension under Section 408(k) of the Code
32 or an ineligible deferred compensation plan under Section 457(f) of the Code.
33 Pension benefits under an employee retirement plan do not include distributions that
34 are subject to the tax imposed by the Code, Section 72(t). "Military retirement plan"
35 means benefits received as a result of service in the active or reserve components of
36 the Army, Navy, Air Force, Marines or Coast Guard. "Maximum social security
37 benefit," for the tax year beginning January 1, 2007 and ending December 31, 2007,
38 equals \$25,392. For tax years beginning on or after January 1, 2008, "maximum
39 social security benefit" means the social security benefit adjusted for the cost of
40 living pursuant to the Social Security Act, 42 United States Code, Section 215(b)(i);

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

1 **SUMMARY**

2 Current law provides a deduction from the state income tax for the first \$6,000 of
3 income from certain public and private pensions.

4 This bill increases the amount of the deduction to the amount of the maximum social
5 security benefit reduced by any social security benefits and railroad retirement benefits
6 actually received by the taxpayer. The deduction is required to be adjusted annually to
7 reflect the annual cost-of-living adjustment in social security benefits.