

MAINE STATE LEGISLATURE

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Date: 4/2/24

(Filing No. S-643)

REPORT A
TAXATION

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STATE OF MAINE
SENATE
131ST LEGISLATURE
SECOND REGULAR SESSION

COMMITTEE AMENDMENT “ ” to S.P. 211, L.D. 457, “An Act to Amend Maine's Tax Laws”

Amend the bill by striking out the title and substituting the following:

'An Act to Phase Out the Pension Deduction Under the Income Tax and to Increase the Cost-of-living Adjustment for Certain Government Retirement Benefits for Fiscal Year 2024-25'

Amend the bill by striking out everything after the enacting clause and inserting the following:

'Sec. 1. 5 MRSA §17806, sub-§1, ¶A, as amended by PL 2021, c. 635, Pt. NN, §1, is further amended to read:

A. Except as provided in paragraphs A-1, A-2 ~~and~~ A-3 ~~and~~ A-4, whenever there is a percentage increase in the Consumer Price Index from July 1st to June 30th, the board shall automatically make an equal percentage increase in retirement benefits, beginning in September, up to a maximum annual increase of 3%. Effective July 1, 2011, the increase applies to that portion of the retirement benefit up to \$20,000, which amount must be indexed in subsequent years by the same percentage adjustments granted under this section. Effective July 1, 2022, the increase applies to that portion of the retirement benefit up to \$24,186.25, which amount must be indexed in subsequent years by the same percentage adjustments granted under this section.

Sec. 2. 5 MRSA §17806, sub-§1, ¶A-4 is enacted to read:

A-4. For cost-of-living adjustments awarded under paragraph A in fiscal year 2024-25 only, the increase applies to that portion of the retirement benefit up to \$40,000.

Sec. 3. 36 MRSA §5122, sub-§2, ¶M-2, as amended by PL 2023, c. 523, Pt. B, §1, is further amended by amending subparagraph (1), division (b) to read:

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

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Sec. 4. 36 MRSA §5122, sub-§2, ¶M-2, as amended by PL 2023, c. 523, Pt. B, §1, is further amended by amending subparagraph (2), division (f) to read:

(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); and

Sec. 5. 36 MRSA §5122, sub-§2, ¶M-2, as amended by PL 2023, c. 523, Pt. B, §1, is further amended by enacting a new subparagraph (3) to read:

(3) For tax years beginning on or after January 1, 2024, the amount in subparagraph (1), division (a) must be reduced by an amount equal to the total amount in subparagraph (1), division (a) multiplied by a fraction, the numerator of which is the taxpayer's federal adjusted gross income less the applicable amount, except that the numerator may not be less than zero, and the denominator of which is \$50,000 in the case of a married individual filing a separate return and \$100,000 in all other filing cases. The fraction contained in this subparagraph may not produce a result that is more than one. The applicable amount must be adjusted for inflation in accordance with section 5403, subsection 10.

For purposes of this subparagraph, "applicable amount" means:

- (a) For individuals filing as single individuals, \$100,000;
- (b) For individuals filing as heads of households, \$150,000;
- (c) For individuals filing married joint returns or as surviving spouses, \$200,000; or
- (d) For married individuals filing separate returns, 1/2 of the applicable amount under division (c).

Sec. 6. 36 MRSA §5403, sub-§8, as amended by PL 2023, c. 412, Pt. ZZZ, §9, is further amended to read:

8. Personal exemption phase-out. Beginning in 2018 and each year thereafter, by the dollar amount of the applicable amounts specified in section 5126-A, subsection 2, paragraphs A, B and C, except that for the purposes of this subsection, notwithstanding section 5402, subsection 1-B, the "cost-of-living adjustment" is the Chained Consumer Price Index for the 12-month period ending June 30th of the preceding calendar year divided by the Chained Consumer Price Index for the 12-month period ending June 30, 2017; ~~and~~

Sec. 7. 36 MRSA §5403, sub-§9, as enacted by PL 2023, c. 412, Pt. ZZZ, §10, is amended to read:

9. Dependent exemption tax credit amount. Beginning in 2024 and each year thereafter, by the dollar amount of the dependent exemption tax credit under section 5219-SS, except that for the purposes of this subsection, notwithstanding section 5402, subsection 1-B, the "cost-of-living adjustment" is the Chained Consumer Price Index for

1 the 12-month period ending June 30th of the preceding calendar year divided by the
2 Chained Consumer Price Index for the 12-month period ending June 30, 2023. If the credit
3 amount, adjusted by application of the cost-of-living adjustment, is not a multiple of \$5,
4 any increase must be rounded to the next lowest multiple of \$5; and

5 **Sec. 8. 36 MRSA §5403, sub-§10** is enacted to read:

6 **10. Income deduction for retirement plan benefits; applicable amount.** Beginning
7 in 2024 and each year thereafter, by the dollar amount of the applicable amounts specified
8 in section 5122, subsection 2, paragraph M-2, subparagraph (3), except that for the
9 purposes of this subsection, notwithstanding section 5402, subsection 1-B, the "cost-of-
10 living adjustment" is the Chained Consumer Price Index for the 12-month period ending
11 June 30th of the preceding calendar year divided by the Chained Consumer Price Index for
12 the 12-month period ending June 30, 2023.

13 **Sec. 9. Appropriations and allocations.** The following appropriations and
14 allocations are made.

15 **RETIREMENT SYSTEM, MAINE PUBLIC EMPLOYEES**

16 **Retirement System - Retirement Allowance Fund 0085**

17 Initiative: Provides one-time funds to pay the unfunded actuarial liability created by
18 providing that, for fiscal year 2024-25 only, the cost-of-living adjustment awarded to
19 retired state employees and teachers and their beneficiaries applies to the first \$40,000 of
20 the retirement benefit.

21 GENERAL FUND	2023-24	2024-25
22 All Other	\$0	\$39,836,000
23		
24 GENERAL FUND TOTAL	\$0	\$39,836,000

25
26 Amend the bill by relettering or renumbering any nonconsecutive Part letter or section
27 number to read consecutively.

28 **SUMMARY**

29 This amendment, which is the majority report of the committee, replaces the bill, which
30 is a concept draft, changes the title and establishes a phase-out of the pension deduction for
31 nonmilitary pensions under the income tax based on the income of the taxpayer. The phase-
32 out begins with income over \$100,000 for individuals, \$150,000 for heads of households
33 and \$200,000 for married individuals filing jointly. The amendment adjusts these amounts
34 for inflation in future years. The amendment provides that, for the cost-of-living adjustment
35 awarded to retired state employees and teachers and their beneficiaries in fiscal year 2024-
36 25 only, which is paid in September 2024, the adjustment applies to the first \$40,000 of the
37 retirement benefit. Effective July 1, 2025, the increase applies to the portion that otherwise
38 would have been in effect absent this one-time charge.

39 **FISCAL NOTE REQUIRED**

40 (See attached)



131st MAINE LEGISLATURE

LD 457

LR 2184(02)

An Act to Amend Maine's Tax Laws

Fiscal Note for Bill as Amended by Committee Amendment "A" (S-643)

Committee: Taxation

Fiscal Note Required: Yes

Fiscal Note

	FY 2023-24	FY 2024-25	Projections FY 2025-26	Projections FY 2026-27
Net Cost (Savings)				
General Fund	\$0	\$22,812,000	(\$17,812,500)	(\$19,076,000)
Appropriations/Allocations				
General Fund	\$0	\$39,836,000	\$0	\$0
Revenue				
General Fund	\$0	\$17,024,000	\$17,812,500	\$19,076,000
Other Special Revenue Funds	\$0	\$896,000	\$937,500	\$1,004,000

Fiscal Detail and Notes

The provisions included in this legislation will result in a net cost to the General Fund of \$22,812,000 in fiscal year 2024-25 and net savings to the General Fund of \$17,812,500 in fiscal year 2025-26 and \$19,076,000 in fiscal year 2026-27.

First, this bill establishes a phaseout of the individual income tax pension deduction for non-military pensions based on the taxpayer's adjusted gross income for tax years beginning on or after January 1, 2024. It will increase General Fund revenue by \$17,024,000 and increase Local Government Fund revenue by \$896,000 in fiscal year 2024-25.

This bill also provides that, for fiscal year 2024-25 only, the cost-of-living adjustment (COLA) awarded to retired state employees and teachers and their beneficiaries applies to the first \$40,000 of the retirement benefit. According to the Maine Public Employees Retirement System, this provision will create an unfunded actuarial liability (UAL) totaling \$39,836,000 that, pursuant to the Maine Constitution, will have to be funded immediately. This bill includes a one-time General Fund appropriation in that amount to the Retirement Allowance Fund within the Maine Public Employees Retirement System in fiscal year 2024-25 to pay for the cost of the COLA provision.