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No. 1227

H.P. 898

House of Representatives, March 24, 2021

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

Received by the Clerk of the House on March 22, 2021. Referred to the Committee on
Taxation pursuant to Joint Rule 308.2 and ordered printed pursuant to Joint Rule 401.

A handwritten signature in cursive script that reads "Robert B. Hunt".

ROBERT B. HUNT
Clerk

Presented by Representative DODGE of Belfast.
Cosponsored by Representatives: BROOKS of Lewiston, COLLINGS of Portland, CUDDY of
Winterport, WHITE of Waterville, WILLIAMS of Bar Harbor, Senator: DAUGHTRY of
Cumberland.

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, for each individual who is a
4 primary recipient of civil service retirement plan benefits, the lesser of:

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

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

10 For purposes of this paragraph, "civil service pension deduction amount" means:

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

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

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

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

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

19 For the purposes of this paragraph, "civil service retirement plan benefits,"
20 "primary recipient" and "retirement plan benefits" have the same meaning as under
21 paragraph M-2, subparagraph (2);

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

31 (f) "Retirement plan benefits" means employee retirement plan benefits,
32 except pick-up contributions for which a subtraction is allowed under
33 paragraph E, reported as pension or annuity income for federal income tax
34 purposes and individual retirement account benefits reported as individual
35 retirement account distributions for federal income tax purposes. "Retirement
36 plan benefits" does not include distributions that are subject to the tax imposed
37 by the Code, Section 72(t) or, for tax years beginning on or after January 1,
38 2021, civil service retirement plan benefits for which a subtraction is allowed
39 under paragraph C-1;

40 SUMMARY

41 This bill establishes an income tax exemption for taxpayers who receive civil service
42 retirement plan benefits who do not participate in the federal Social Security program in

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