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**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**

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

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

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

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

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

For purposes of this paragraph, the following terms have the following meanings. "Primary recipient" means the individual upon whose earnings the employee retirement plan benefits are based or the surviving spouse of that individual. "Pension benefits" means employee retirement plan benefits reported as pension or annuity income for federal income tax purposes. "Employee retirement plan" means a state, federal or military retirement plan or any other retirement benefit plan established and maintained by an employer for the benefit of its employees under the Code, Section 401(a), Section 403 or Section 457(b), except that distributions made pursuant to a Section 457(b) plan are not eligible for the deduction provided by this paragraph if they are made prior to age 55 and are not part of a series of substantially equal periodic payments made for the life of the primary recipient or the joint lives of the primary recipient and that recipient's designated beneficiary. "Employee retirement plan" does not include an individual retirement account under Section 408 of the Code, a Roth IRA under Section 408A of the Code, a rollover individual retirement account, a simplified employee pension under Section 408(k) of the Code or an ineligible deferred compensation plan under Section 457(f) of the Code. Pension benefits under an employee retirement plan do not include distributions that are subject to the tax imposed by the Code, Section

72(t). "Military retirement plan" means benefits received as a result of service in the active or reserve components of the Army, Navy, Air Force, Marines or Coast Guard. "Maximum social security benefit," for the tax year beginning January 1, 2007 and ending December 31, 2007, equals \$25,392. For tax years beginning on or after January 1, 2008, "maximum social security benefit" means the social security benefit adjusted for the cost of living pursuant to the Social Security Act, 42 United States Code, Section 215(b)(i);

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

SUMMARY

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

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