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

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 plus an annual inflation adjustment 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 reduction does not apply to benefits paid under a military retirement plan; 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. "Inflation adjustment" means the Consumer Price Index as defined in section 5402, subsection 1 for the year ending on the September 30th immediately preceding the calculation date, divided by the Consumer Price Index for the prior year ending September 30th. On or about November 15th of each year, the State Tax Assessor shall calculate the adjusted deduction amount by multiplying the deduction in effect on

the calculation date by the inflation adjustment. If the adjusted deduction amount is not a multiple of \$10, any increase must be adjusted to the next lowest multiple of \$10 and become effective for the following income tax year;

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

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