

annual benefit payable under the Social Security Act (\$17,300 for 2001) and is reduced by the amount of any Social Security payment received. The current pension exclusion is limited to income received from an "employee retirement system." Individual Retirement Accounts and Keogh plans are not considered employee retirement systems and income from these plans is not deductible.

From a policy standpoint, Senate Bill 399 adheres to the general principles behind the State's pension exclusion. However, there are two concerns which prevent me from signing the measure into law this year. First, the extent of any general fund revenue loss from this tax change is unknown and cannot be reliably estimated. Under one set of assumptions developed by the Department of Legislative Services, general fund revenues could decline by approximately \$1.7 million annually. This is not an insignificant loss, especially given the challenges the State faces in funding its commitments to public education.

Secondly, it is important to note that Senate Bill 399 represents only one of many attempts to broaden the exclusion of retirement income from State taxation. During the 2002 Session, bills were introduced that would increase the maximum pension exclusion, exclude income from individual retirement accounts, and exclude the retirement income of federal employees, military retirees, and teachers. The taxation of all retirement income, including rollovers from IRA accounts, should be one of the issues studied by the new *Commission on Maryland's Fiscal Structure* created by House Bill 1 and signed into law on May 6, 2002.

For the above reasons, I have vetoed Senate Bill 399.

Sincerely,
Parris N. Glendening
Governor

Senate Bill No. 399

AN ACT concerning

Income Tax - Subtraction Modification for Retirement Income - Rollovers to Individual Retirement Accounts

FOR the purpose of including income from certain retirement plans within a certain subtraction modification allowed under the Maryland income tax for certain retirement income under certain circumstances; providing for the application of this Act; and generally relating to an income tax subtraction modification for certain retirement income.

BY repealing and reenacting, with amendments,

Article - Tax - General

Section 10-209

Annotated Code of Maryland

(1997 Replacement Volume and 2001 Supplement)