

Department of Legislative Services
 Maryland General Assembly
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FISCAL AND POLICY NOTE
 First Reader

House Bill 1183 (Delegate Kipke)
 Ways and Means

Income Tax – Standard Deduction – Charitable Contributions

This bill allows an individual who claims the standard deduction to increase the value of the deduction claimed in an amount equal to 25% of the qualified charitable deductions that would have been allowed if the individual itemized on their federal income tax return. **The bill takes effect July 1, 2021, and applies to tax year 2021 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$16.8 million in FY 2022, reflecting the impact from about one and one-half tax years. Future year estimates reflect annualization and projected growth in eligible deductions. General fund expenditures increase beginning in FY 2022 due to implementation costs at the Comptroller’s Office.

(\$ in millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GF Revenue	(\$16.8)	(\$11.4)	(\$11.7)	(\$12.0)	(\$12.3)
GF Expenditure	-	-	-	-	-
Net Effect	(\$16.8)	(\$11.4)	(\$11.7)	(\$12.0)	(\$12.3)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Local revenues decrease by \$10.9 million in FY 2022 and by \$8.0 million in FY 2026. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law:

Federal Law

To determine federal taxable income, a taxpayer may generally reduce their federal adjusted gross income by either claiming the standard deduction or itemizing allowable deductions.

The federal standard deduction in tax year 2019 increases to \$12,200 for an individual taxpayer (\$24,400, if married filing jointly, and \$18,350 for a head of household). These values are indexed in future years for inflation.

The expenses that may be itemized include eligible home mortgage interest, charitable contributions, investment interest, medical expenses, casualty and theft losses attributable to federally declared disasters, and up to \$10,000 in State and local taxes.

State Income Tax

An individual is allowed to itemize deductions for State income tax purposes only if the individual itemizes for federal income tax purposes. In addition, a taxpayer can itemize an expense for State income tax purposes only if the expense can be claimed as a federal itemized deduction. Taxpayers generally may only deduct expenses that qualify for the federal itemized deduction. An individual who itemizes for State income tax purposes is required to reduce the sum of the individual's federal itemized deductions by any amount:

- required by Internal Revenue Code (IRC);
- deducted under Section 170 of IRC for contributions of a preservation or conservation easement for which a State credit is claimed; and
- claimed as taxes on income paid to a state or political subdivision of a state, after subtracting a *pro rata* portion of the reduction to itemized deductions required under Section 68 of IRC.

The value of the standard deduction is equal to 15% of Maryland adjusted gross income, subject to minimum and maximum values depending on filing status as shown in **Exhibit 1**.

Exhibit 1
State Income Tax Standard Deduction
Current Law – Tax Year 2019

Single, Dependent Filer, Married Filing Separately		Joint, Head of Household, Widower	
<u>MAGI</u>	<u>Deduction</u>	<u>MAGI</u>	<u>Deduction</u>
Under \$10,000	\$1,500	Under \$20,333	\$3,050
\$10,000-\$14,999	15%	\$20,333-\$30,322	15%
\$15,000 and Over	\$2,250	\$30,333 and Over	\$4,550

MAGI: Maryland adjusted gross income

Note: Estimated values based on projected cost-of-living index.

Tax Year 2020 Above-the-line Deduction

For federal income tax purposes, an individual who claims the standard deduction may claim an above-the-line deduction in an amount not to exceed \$300 for qualified charitable contributions made during tax year 2020. Thus, a taxpayer taking the standard deduction, who absent the provision would not be able to deduct any charitable contributions, may claim an above-the-line deduction for qualified charitable contributions.

The State conforms to the federal income tax treatment of this deduction; the amount deducted under the federal income tax flows through for State income tax purposes and generally reduces State and local income taxes.

State Revenues: The bill allows, beginning in tax year 2021, a taxpayer who claims the standard deduction to increase the value of the deduction claimed in an amount equal to 25% of the qualified charitable contributions made in the taxable year. As a result, general fund revenues decrease by \$16.8 million in fiscal 2022, which reflects the impact of tax year 2021 and about one-half of tax year 2022. **Exhibit 2** shows the projected State and local revenue loss from the bill.

Exhibit 2
Projected State and Local Revenue Impact
(\$ in Millions)

	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
State	(\$16.8)	(\$11.4)	(\$11.7)	(\$12.0)	(\$12.3)
Local	(10.9)	(7.5)	(7.6)	(7.8)	(8.0)
Total Revenues	(\$27.7)	(\$18.9)	(\$19.4)	(\$19.8)	(\$20.3)

This estimate is based on the following facts and assumptions:

- Nationally, in calendar 2019 about 70% of all households contributed an estimated \$309.7 billion to charitable organizations;
- Maryland returns contributed 2% of the total estimated amount; and
- In tax year 2019, 621,000 Maryland federal tax returns that itemized claimed a total of \$5.3 billion in charitable deductions.

State Expenditures: The Comptroller's Office may incur additional costs beginning in fiscal 2022 as a result of hiring additional revenue examiners and incurring programming expenses.

Local Revenues: Local income tax revenues decrease by about 3% of the increase in deductions claimed. Local revenues will decrease by \$10.9 million in fiscal 2022 and by \$8.0 million in fiscal 2026, as shown in Exhibit 2.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Giving USA; Internal Revenue Service; National Philanthropic Trust; Department of Legislative Services

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rh/hlb

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