

Department of Legislative Services  
 Maryland General Assembly  
 2008 Session

FISCAL AND POLICY NOTE

House Bill 861 (Delegate Sossi, *et al.*)  
 Ways and Means

Income Tax - Itemized Deductions

This bill allows an individual to itemize deductions for State income tax purposes without regard to whether or not the individual itemizes for federal income tax purposes.

The bill takes effect July 1, 2008 and applies to tax year 2008 and beyond.

Fiscal Summary

**State Effect:** General fund revenues would decrease by \$13.8 million in FY 2009 due to increased deductions claimed. Future years reflect estimated number of eligible individuals and inflation. Expenditures would not be affected.

(\$ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	(\$13.8)	(\$14.3)	(\$14.8)	(\$15.2)	(\$15.6)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$13.8)	(\$14.3)	(\$14.8)	(\$15.2)	(\$15.6)

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

**Local Effect:** Local income tax revenues would decrease by \$8.8 million in FY 2009. Future year revenue losses would increase by about 3% annually, totaling \$10.0 million in FY 2013.

**Small Business Effect:** Minimal.

## Analysis

**Current Law:** An individual is allowed to itemize deductions for State income tax purposes only if the individual itemizes for federal income tax purposes. 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 the Internal Revenue Code (IRC);
- deducted under Section 170 of the 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 the state, after subtracting a pro rata portion of the reduction to itemized deductions required under Section 68 of the IRC.

**Background:** For federal tax purposes, individuals can claim either a standard deduction or itemize deductions. **Exhibit 1** lists the value of the standard deduction.

---

### Exhibit 1 State Standard Deduction

Single		Joint	
<u>MAGI</u>	<u>Deduction</u>	<u>MAGI</u>	<u>Deduction</u>
under \$10,000	\$1,500	under \$20,000	\$3,000
10,000-\$13,333	15%	\$20,000-\$26,667	15%
Over \$13,333	\$2,000	Over \$26,667	\$4,000

---

In tax year 2007, the value of the federal standard deduction was higher than the State standard deduction – \$5,350 for single individual, \$7,850 for head of household, and \$10,700 for joint filers. The value of the federal standard deduction is indexed to inflation. Generally, an individual would elect to take the standard deduction if the individual does not have qualifying expenses that can be itemized in excess of the standard deduction.

**State Revenues:** The bill provides that beginning in tax year 2008 individuals could itemize for State income tax purposes regardless of whether or not the individual itemized for federal income tax purposes. As a result, general fund revenues would decrease by \$13.8 million in fiscal 2009. This estimate is based on the following facts and assumptions:

- in tax year 2005, over 1 million taxpayers claimed the standard deduction;
- an estimated 10% of these individuals would elect to itemize for State income tax purposes; and
- based on the estimated value of the federal and State standard deductions, the additional net deductions for each individual who itemizes in tax year 2008 would be \$2,005 for a single filer, \$2,042 for a head of household, and \$3,510 for joint filers;

Future years would increase by about 1% due to population increase and 3% due to inflation.

**Local Revenues:** Local income tax revenues would decrease by about 3% of the total net additional itemized deductions claimed. Local income tax revenues would decrease by \$8.8 million in fiscal 2009, \$9.2 million in fiscal 2010, \$9.4 million in fiscal 2011, \$9.7 million in fiscal 2012, and 10.0 million in fiscal 2013.

---

### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - February 20, 2008  
mll/hlb

---

Analysis by: Robert J. Rehrmann

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510