

Department of Legislative Services
 Maryland General Assembly
 2022 Session

FISCAL AND POLICY NOTE
 Enrolled - Revised

House Bill 172
 Ways and Means

(Delegate Luedtke)

Budget and Taxation

Income Tax - Subtraction Modification - Union Dues

This bill creates a subtraction modification against the State income tax for an individual who pays specified union dues. **The bill takes effect July 1, 2022, and applies to tax year 2022 and beyond.**

Fiscal Summary

State Effect: General fund revenues may decrease by \$3.4 million annually beginning in FY 2023 due to subtraction modifications claimed against the personal income tax. General fund expenditures increase by \$65,000 in FY 2023 due to one-time computer programming expenses at the Comptroller’s Office.

(\$ in millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
GF Revenue	(\$3.4)	(\$3.4)	(\$3.4)	(\$3.4)	(\$3.4)
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$3.5)	(\$3.4)	(\$3.4)	(\$3.4)	(\$3.4)

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

Local Effect: Local revenues may decrease by \$2.3 million annually beginning in FY 2023. Local expenditures are not materially affected.

Small Business Effect: None.

Analysis

Bill Summary/Current Law:

Federal and State Tax Treatment of Union Dues

To determine federal taxable income, a taxpayer may reduce their federal adjusted gross income by either claiming the standard deduction or itemizing allowable deductions. Prior to tax year 2018, a taxpayer who elected to itemize deductions could deduct certain miscellaneous expenses. Unreimbursed employee expenses, including specified union dues and expenses, qualified for the deduction.

Qualified union dues and expenses include membership dues and initiation fees and certain assessments for benefit payments to unemployed union members. Nondeductible expenses include contributions to a pension fund or expenses related to certain lobbying and political activities. These expenses were subject to a 2% floor – a taxpayer could only deduct the expenses that exceeded 2% of the taxpayer's adjusted gross income.

Certain high-income taxpayers were required to reduce certain itemized deductions, including miscellaneous deductions, if certain conditions were met and the taxpayer's income exceeded specified amounts – \$287,650 in tax year 2017 (\$313,800 for married filing jointly).

The federal Tax Cuts and Jobs Act of 2017 enacted significant changes to federal taxes, including the personal income tax. The Act eliminated the miscellaneous expenses deduction in tax years 2018 through 2025. Given the Act eliminated the deduction, an individual may not deduct union dues in these tax years; however, under current federal law, individuals will be able to claim the deduction in tax year 2026 and beyond.

The bill will allow a taxpayer for State income tax purposes to claim a subtraction modification for the amount of union dues that would have qualified for the miscellaneous itemized deduction, without regard to the 2% limitation.

State Revenues: Beginning in tax year 2022, the bill creates a subtraction modification for an individual who pays certain union dues. As a result, general fund revenues may decrease by \$3.4 million beginning in fiscal 2023 due to subtraction modifications claimed against the personal income tax. This estimate is based on the number of union members in Maryland and the estimated cost of similar proposals in other states and for the federal income tax, adjusted for Maryland.

State Expenditures: The Comptroller's Office reports that it will incur a one-time general fund expenditure increase of \$65,000 in fiscal 2023 to add the subtraction

modification to the income tax forms. This includes data processing changes to the income tax return processing and imaging systems and systems testing.

Local Revenues: Local income tax revenues decrease as a result of subtraction modifications claimed against the personal income tax. Local revenues may decrease by \$2.3 million annually beginning in fiscal 2023.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): U.S. Bureau of Labor Statistics; Comptroller's Office; U.S. Joint Committee on Taxation; Department of Legislative Services

Fiscal Note History: First Reader - January 17, 2022
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Analysis by: Robert J. Rehrmann

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