HB 647

Department of Legislative Services
Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 647 (Delegate Wivell, *et al.*)
Ways and Means

Income Tax - Itemized Deductions

This bill allows an individual to itemize deductions for Maryland income tax purposes regardless of whether the individual itemizes deductions for federal income tax purposes. For an individual who elects to itemize deductions on their State but not federal income tax return, the value of the itemized deductions is calculated as if the individual itemized on their federal income tax return. By December 1, 2024, the Comptroller must report to specified committees of the General Assembly on (1) the bill's financial impact to the State and (2) the number of taxpayers who elected to itemize deductions on their State income tax returns compared to the number of taxpayers who elected to itemize deductions for their federal income tax returns for tax year 2023. **The bill takes effect July 1, 2023, and applies to tax year 2023 through 2025. The bill terminates June 30, 2026.**

Fiscal Summary

State Effect: General fund revenues decrease by at least $189.8 million in FY 2024. Future year estimates reflect annualization, projected growth in eligible expenses, and termination of the bill after tax year 2025. General fund expenditures for the Comptroller's Office increase beginning in FY 2024.

($ in millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GF Revenue	($189.8)	($132.2)	($68.4)	$0	$0
GF Expenditure	-	-	-	$0	$0
Net Effect	(-)	(-)	(-)	$0.0	$0.0

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

Local Effect: Local revenues decrease by at least $123.2 million in FY 2024, $86.2 million in FY 2025, and $44.0 million in FY 2026. Local expenditures are not affected.

Small Business Effect: Potential meaningful.

Analysis

Current Law:

Federal Standard and Itemized Deductions

To determine federal taxable income, a taxpayer may subtract from federal adjusted gross income either the standard deduction or itemized allowable deductions. The Tax Cuts and Jobs Act of 2017 (TCJA) limited and suspended various deductions for tax years 2018 through 2025, including miscellaneous itemized deductions and deductions for State and local taxes, for example.

The value of the federal standard deduction for tax year 2022 increases to $12,950 for single filers, $25,900 for joint filers, and $19,400 for heads of household. These values are indexed in future years for inflation. The TCJA significantly increased the standard deduction for tax years 2018 through 2025.

Maryland Standard and Itemized Deductions

Standard Deduction: An individual may elect to use the Maryland standard deduction whether or not the individual itemizes deductions on the individual's federal income tax return. The value of the standard deduction is equal to 15% of Maryland adjusted gross income, subject to indexed minimum and maximum values depending on filing status. For tax year 2022, the minimum value of the standard deduction is $1,600 ($3,200 for joint filers, surviving spouses, and heads of household), and the maximum value is $2,400 ($4,850 for joint filers, surviving spouses, and heads of household).

Itemized Deductions: An individual may itemize deductions for purposes of Maryland taxable income only if the individual itemizes deductions on the individual's federal income tax return for purposes of determining federal taxable income. An individual who elects to itemize deductions for State income tax purposes is allowed as a deduction the sum of the individual's federal itemized deductions, limited and reduced as required under the Internal Revenue Code (IRC) and further reduced by:

- any amount deducted under § 170 of IRC for contributions of a preservation or conservation easement for which a State tax credit is claimed; and
- the amount 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 as required under § 68 of IRC.

State/Local Revenues: As discussed above, the bill authorizes, in tax year 2023 through 2025, an individual to itemize deductions for State income tax purposes regardless of whether the individual itemizes deductions for federal income tax purposes. As a result, general fund revenues decrease significantly in fiscal 2024 through 2026.

Exhibit 1 shows the projected State and local revenue effect in fiscal 2024 through 2026. As shown in the exhibit, in fiscal 2024, State general fund revenues decrease by at least $189.8 million, and local income tax revenues decrease by at least $123.2 million, which reflects the impact of tax year 2023 and about one-half of tax year 2024. Future years reflect annualization, projected growth in eligible expenses, and termination of the bill after tax year 2025.

Exhibit 1
Projected State and Local Revenue Effect
Fiscal 2024-2026
($ in Millions)

	FY 2024	FY 2025	FY 2026
State	($189.8)	($132.2)	($68.4)
Local	($123.2)	($86.2)	($44.0)
Total	**($313.0)**	**($218.4)**	**($112.4)**

Source: Department of Legislative Services

Consistent with estimates produced for similar, prior-year legislation, this estimate is based on information provided by the Comptroller's Office on the estimated revenue effect attributable to taxpayers who switched from itemizing deductions to claiming the standard deduction in response to the changes enacted by the TCJA, adjusted to account for deduction amounts that are currently limited or suspended by the TCJA.

State Expenditures: The Comptroller's Office advises that additional personnel are needed in order to handle the increased complexity in processing income tax returns as a result of the bill. Thus, general fund expenditures for the Comptroller's Office increase in fiscal 2024 through 2026. However, a precise estimate of the related costs is unavailable at this time.

Small Business Effect: Small business partnerships, S corporations, limited liability companies, and sole proprietorships may be meaningfully affected to the extent the bill results in reduced income tax liabilities for these businesses.

Additional Information

Prior Introductions: Similar legislation has been introduced within the last three years. See HB 1111 of 2021 and SB 486 and HB 788 of 2020.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Internal Revenue Service; Department of Legislative Services

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