

## **Testimony SB 486 Paul Schwartz**

Uploaded by: schwartz, paul

Position: FAV

Testimony Paul Schwartz SB 486 – February 12, 2020 – Senate Budget & Taxation

My name is **Paul Schwartz** and I am here today representing not only **NARFE**, the National Active and Retired Federal Employees, but I am also representing **middle class taxpayers in Maryland**

**The most important point I will make today is this:** The windfall that found its way into the Maryland State Treasury as a result of the elimination of middle class tax deductions resulting from the passage of the Federal tax plan in December 2017 is a completely separate issue from DECOUPLING federal and state tax returns.

They are two distinct and separate issues. Please don't confuse the two.

Passage of SB 486 will in no way impact your use of that windfall, estimated in the area of around \$400 million, to fund whatever you want including Kirwan.

When Trump announced the Federal tax plan he said that YOU will no longer need to itemize because of the newly **doubled federal standard deduction**

That might work in low taxed red states like Mississippi, but not in high taxed blue states like Maryland, Connecticut and New York

Why you ask? Because doubling the federal standard deduction for joint returns from \$12000 to \$24000 also came with the elimination of the personal exemption of \$4000 each for you and your spouse – total of \$8000.

So you are really comparing \$24K to \$20K not \$12K, not much of a difference

As a result, even without the middle class tax deductions that were eliminated or capped, middle class Maryland taxpayers still ordinarily do better overall when they itemize on both their federal and state returns than taking the newly increased standard for both.

I have spoken to groups across the state and whenever I ask about the results of doing it both ways – standard on both or itemize on both – the answer is almost always they did better itemizing on both even without those eliminated middle class tax deductions that created that windfall

That is why the fiscal note is completely absurd. I will get into the fiscal note more later if I am given time, but for now suffice it to say that very few are running to the newly raised federal standard deduction. They are still for the most part itemizing as they did before to maximize their overall tax benefit.

What we have now is a situation in which taxpayers are **penalized** when they itemize to maximize their overall tax benefit even if their federal itemized deductions fall short of the newly increased standard deduction on the federal return.

Who does that help? NOT Maryland, not the taxpayer, only the federal treasury because, without DECOUPLING, if itemized deductions at the federal level come to, for example, \$23K and because of no DECOUPLING the taxpayer can't take the higher federal standard, the federal treasury gains \$1000.

Now, the only possible additional expense has, again, nothing to do with the Maryland state windfall resulting from the elimination of deductions

It is the need for possibly a few more auditors or software during the three month tax season because if a taxpayer now itemizes on the state return but now, with DECOUPLING, is allowed to take the standard on the federal return IRS algorithms would not be used for that specific situation

When I mentioned this to Boyd Rutherford, he was confident that Peter Franchot could make the adjustment without new hires

Now, on the absurdity of the **fiscal note** – I assume it is the same as last year's fiscal note on SB 906

It is based on the false premise that with DECOUPLING Maryland taxpayers will no longer be **forced** to take the minuscule state standard deduction if they now **run** to the newly increased federal standard deduction. **They do not!**

They are itemizing anyway, as they always did, because they still do better continuing to itemize because the state standard is so small

They are NOT running to now take the standard deduction – it is only if they did would this fiscal note make any sense – Remember charitable contributions are still deductible

The taxpayer should be **entitled** to itemize even without the eliminated deductions so why FORCE them to take the state standard deduction just to avail themselves of the new federal standard?

**DON'T PENALIZE MARYLAND MIDDLE CLASS TAXPAYERS FOR ITEMIZING ON THEIR STATE RETURNS**

Pass SB 486 – it will cost you next to nothing and send a very positive message to your taxpaying/voting constituency

## **Paul Sundell Testimony on Senate Bill 486**

Uploaded by: sundell, paul

Position: FAV

Paul Sundell Testimony To Senate Budget and Taxation Committee on Senate Bill 486

Conclusion: Marylanders deserve to itemize on their state return because the legislature has failed to fully and fairly index the Maryland tax code to inflation. Maryland is already a very high tax state with some of the highest marginal tax rates in the country when state and local tax rates are combined. This creates a very unfriendly state to retirees and lower income taxpayers where inflation and the tax code erodes the real purchasing power of their income over time. The Maryland tax Code should be fully indexed to inflation like the federal tax code.

- A. Unless the tax code is indexed to inflation, tax payer's taxes will go up by more than inflation if their income only increases at the rate inflation which is the case for most retirees and lower income tax payers. The standard deduction, and other fixed deductions and tax brackets need to be indexed or adjusted to inflation to prevent a greater proportion of the tax payers income being subject to taxation or to higher tax brackets. Failure to fully index the tax code to inflation does the greatest harm to those that can least afford a loss in their real purchasing power: lower income Marylanders and retirees.
- B. Second best solutions is to have the politicians regularly adjust the tax code for inflation.
  - A. This has not been the case. Standard deduction was increased for single tax payers in 2018 tax year from \$2000 to \$2250 the first in over thirty years. Over that thirty year period inflation increased by 102.6 percent thus using the CPI-W index the standard deduction should have been raised to \$4052. Unknown the last time the personal exemption was raised from \$3200. My guess at least 20 years. Indexing \$100K which was passed for tax year 2013 would raise that to \$107.8K. Exemptions for retirement income were raised in 2018 tax year to \$30,600 from \$29,900. Search did not indicate when previous increase occurred but my guess is at least 10 years.
- C. I believe if politicians want to raise your real tax burdens for a given level of real income they should have to vote on it. This creates a back door to tax hikes over time that harm the most those that are least able to pay them.
- D. I did the numbers on my Maryland Tax return last year and my Maryland taxes were about \$250 higher because I could not itemize and I was not happy at all.
- E. Reform is long overdue and should not be held hostage by the states propensity to overspend to gain support and reward its political bases at the expense of the general taxpayer.

## CPIAUCSL

## Consumer Price Index for All Urban Consumers: All Items in U.S. City Average

Frequency: Annual

observation_date	CPIAUCSL	rate of inflation
1970-01-01	38.842	
1971-01-01	40.483	4.226560824
1972-01-01	41.808	3.272951832
1973-01-01	44.425	6.258720351
1974-01-01	49.317	11.01106734
1975-01-01	53.825	9.141601893
1976-01-01	56.933	5.774887754
1977-01-01	60.617	6.469555035
1978-01-01	65.242	7.629914765
1979-01-01	72.583	11.25303359
1980-01-01	82.383	13.50172216
1981-01-01	90.933	10.37831277
1982-01-01	96.533	6.158357771
1983-01-01	99.583	3.159530387
1984-01-01	103.933	4.368200837
1985-01-01	107.600	3.527902502
1986-01-01	109.692	1.943928129
1987-01-01	113.617	3.578211654
1988-01-01	118.275	4.100044008
1989-01-01	123.942	4.791094201
1990-01-01	130.658	5.419216029
1991-01-01	136.167	4.215830091
1992-01-01	140.308	3.041615667
1993-01-01	144.475	2.969650175
1994-01-01	148.225	2.595604776
1995-01-01	152.383	2.805419689
1996-01-01	156.858	2.936672864
1997-01-01	160.525	2.337565744
1998-01-01	163.008	1.547007216
1999-01-01	166.583	2.19313941
2000-01-01	172.192	3.366683342
2001-01-01	177.042	2.816628757
2002-01-01	179.867	1.595669569
2003-01-01	184.000	2.297998517
2004-01-01	188.908	2.667572464
2005-01-01	195.267	3.365829988
2006-01-01	201.558	3.22208945
2007-01-01	207.344	2.870550296
2008-01-01	215.254	3.814953399
2009-01-01	214.565	-0.320357593
2010-01-01	218.076	1.63656955
2011-01-01	224.923	3.139652277
2012-01-01	229.586	2.073190974
2013-01-01	232.952	1.465971551
2014-01-01	236.715	1.615463288
2015-01-01	236.998	0.119482641
2016-01-01	240.008	1.270018643
2017-01-01	245.134	2.135937971
2018-01-01	251.104	2.435401022

je, Index 1982-1984=100, Annual, Seasonally Adjusted



TOOL | November 2019

# State-by-State Guide to Taxes on Retirees

## State Compare List

Use the chart below to see how selected states stack up when it comes to taxes that affect retirees. Click the links for key details on any state taxation policy. Compare as many as five states at once.

Go back to the [Retiree Tax Map](#) to select different states to compare.

	<a href="#">REMOVE</a>	<a href="#">REMOVE</a>	<a href="#">REMOVE</a>	<a href="#">REMOVE</a>	<a href="#">REMOVE</a>
	Delaware	Maryland	Pennsylvania	Virginia	West Virginia
The Bottom Line	Most Tax-Friendly	Not Tax Friendly	Not Tax Friendly	Tax-Friendly	Mixed tax picture
State Sales Tax	None	6.00%	6.34%	5.65% (groceries taxed)	6.40%
Income Tax Range	Low: 2.2% High: 6.6%	Low: 2% (local taxes additional) High: 5.75% (local taxes additional)	Flat 3.07% (Localities add to this)	Low: 2% High: 5.75%	Low: 3% High: 6.5%
Tax on Social Security	No	No	No	No	No



REMOVE

REMOVE

REMOVE

REMOVE

REMOVE

Delaware

Maryland

Pennsylvania

Virginia

West  
Virginia

Special  
Treatment for  
Other  
Retirement  
Income

Yes

Yes

Yes

Yes

Yes

Property Tax  
Breaks for  
Seniors

Yes

Yes

Yes

Yes

Yes

Tax on  
Inheritances  
and Estates

No

Yes

Yes

No

No

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# State-by-State Guide to Taxes on Retirees

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	REMOVE	REMOVE	REMOVE	REMOVE
	Delaware	Florida	Maryland	South Carolina
The Bottom Line	Most Tax-Friendly	Most Tax-Friendly	Not Tax Friendly	Most Tax-Friendly
State Sales Tax	None	7.05%	6.00%	7.46%
Income Tax Range	Low: 2.2% High: 6.6%	None	Low: 2% (local taxes additional) High: 5.75% (local taxes additional)	Low: 3% High: 7%
Tax on Social Security	No	No	No	No
Special Treatment for Other Retirement Income	Yes	No	Yes	Yes
Property Tax Breaks for Seniors	Yes	Yes	Yes	Yes

	REMOVE	REMOVE	REMOVE	REMOVE
	Delaware	Florida	Maryland	South Carolina
Tax on Inheritances and Estates	No	No	Yes	No
State Profile Page	Go to State Profile	Go to State Profile	Go to State Profile	Go to State Profile

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## Retirement Income Calculator <sup>1</sup>

Tra

Annual Income <sup>1</sup>

\$ 91,918

Current Savings <sup>1</sup>

\$ 25,000

Monthly Savings <sup>1</sup>

\$ 459

6% of income

Birth Year

1985

We recommend saving **\$1,380,366** at retirement. This will cover **\$131,234** per year in retirement income. [Follow this link to see your 3 financial advisor matches](#)

Retirement Age <sup>1</sup> 66

Savings at Retirement  
**\$505,003**

Recommended Savings  
**\$1,380,366**

Calculate Mortgage Payments with Actual Lenders

## **2-12\_SB486\_MACPA\_FavorablewAmends**

Uploaded by: Hood, Tom

Position: FWA



Feb. 12, 2020

The Honorable Guy Guzzone  
Budget and Taxation Committee  
3 West, Miller Senate Office Building  
Annapolis, MD 21401

Re: SB 486, Income Tax - Itemized Deductions - Favorable with amendments

Dear Chairman Guzzone and members of the Committee:

The Maryland Association of Certified Public Accountants (MACPA) is a membership organization with nearly 9,000 CPA members. Our members serve thousands of individual and business clients throughout the state. We support SB 486 with an amendment to allow taxpayers and tax preparers a level of certainty and simplicity.

We support a provision allowing Marylanders to itemize deductions on the Maryland return even if the standard deduction is taken on the federal tax return. However, we would like clear language indicating that the itemized deductions are to be based on the currently enacted version of the Internal Revenue Code with limited modifications.

Many of our members have clients who have directly experienced the consequences of not being able to itemize deductions on their state tax returns when the federal deductions were taken. These consequences included increased taxes if they didn't make multiple calculations, and increased time and cost to make those multiple calculations for finding the right combination of state and federal deductions.

The MACPA appreciates the opportunity to continue offering technical assistance. We respectfully request a favorable report with amendments for SB 486.

Sincerely yours,

Sincerely yours,

A handwritten signature in black ink, appearing to read "J. Thomas Hood, III".

J. Thomas Hood, III, CPA  
CEO & Executive Director

cc: Nick Manis, Manis Canning & Associates