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Testimony Of
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Before the
Maryland Senate Budget and Taxation Committee

Hearing on H.B. 495, Decoupling from Costly Retroactive Federal Tax Changes
March 30, 2021

Chairman Guzzone and Members of the Budget and Taxation Committee, I'm Michael Mazerov, a Senior Fellow with the state fiscal policy division of the Center on Budget and Policy Priorities in Washington, D.C. The Center is a non-partisan research and policy institute that pursues federal and state policies designed to reduce poverty and inequality and to restore fiscal responsibility in equitable and effective ways. We apply our expertise in budget and tax issues and in programs and policies that help low-income people to help inform policy debates and achieve better policy outcomes. I appreciate the opportunity to submit testimony in support of H.B. 495 as amended by the House of Delegates.

Delegate Palakovich Carr's bill would close a loophole in Maryland's tax law that allowed several costly changes in federal tax law included in the March 2020 CARES Act to flow automatically into the state's tax law and reduce its revenues by an estimated $97.5 million in fiscal years 2020 and 2021 combined. Maryland has had a provision in its law for many years ensuring that any federal tax changes that would reduce revenue by more than $5 million annually do not take effect until the legislature affirmatively decides to recognize them. But when the provision was written, no one considered that Congress might reduce federal taxes retroactively for a tax year earlier than the one already underway. Congress took that virtually (if not completely) unprecedented step in the CARES Act, relaxing limits it had enacted less than three years earlier on the deductibility of business losses and business interest in the 2017 Tax Cuts and Jobs Act and doing so retroactively for tax years 2018 and 2019. Earlier this year, the Comptroller determined that the specific wording of the $5 million revenue loss provision did not allow it to apply to 2018 and 2019 tax years, circumventing the clear intention of the legislature in enacting the provision to begin with.

I urge the committee to favorably report H.B. 495. Going forward, it closes a loophole that resulted in the kind of large, automatic revenue losses that longstanding state policy had sought to prevent.

I thank the Committee for the opportunity to submit testimony. I may be reached at mazerov@cbpp.org if Committee members have any further questions.