Statement of the Maryland Federation of National Active and Retired Federal Employees

On House Bill 1111,

Income Tax – Itemized Deductions

My name is Paul Schwartz and I am here today representing not only NARFE, the National Active and Retired Federal Employees Association, but I am also representing middle class taxpayers in Maryland. I am the Chair of the State Legislative Committee of the Maryland Federation of NARFE. We have been advocates of legislation to permit Maryland taxpayers to decouple their federal and state tax returns. Currently, as you know, that is not allowed under Maryland law.

House Bill 1111 would allow Maryland taxpayers to itemize deductions to compute

Maryland taxable income whether or not they itemized deductions on their federal income tax return. As you are aware, the necessity for this legislation was caused by the federal tax changes in 2017, which made it advantageous for many taxpayers to not itemize on their federal returns because of a significant increase in the Federal standard deduction - for one example, the standard deduction for a married couple filing jointly was raised from $12,700 in 2017 to $24,000 in 2018, and in 2020 becomes $28,800 adjusted for inflation.

However, if they chose to do this, it disqualified them from taking itemized deductions on their Maryland tax returns. NARFE/MD strongly supports the aforementioned bill as it represents a major step towards bringing tax fairness to Maryland taxpayers. This view is also supported by the Maryland Society of Accountants and Tax Professionals.

During the economic challenges created by the worldwide coronavirus pandemic, the need to put money back into the pockets of Marylanders is critical to our economic recovery. Passage of HB 1111 helps to do just that and in a fair and justified manner.

Unfortunately, as you know, efforts to achieve this last year via Senate Bill 486, and its counterpart in the House, HB 788, sponsored by Delegate William Wivell, failed to move out of either the Senate Budget & Taxation Committee or the House Ways & Means Committee.

The primary reason for failure was the fiscal note that incorrectly projected an average loss of some $118 million in revenue to Maryland for each year from FY 2021 to FY 2024. The problem with the fiscal note is that it seems to be based entirely on the false assumption that all Maryland taxpayers who had previously taken the standard deduction on their state returns would all choose to go back to itemizing on their state returns if allowed to decouple their return from their federal returns.

This, of course, is a false assumption since the federal tax plan of 2017 eliminated many of the deductions that Maryland taxpayers had previously taken on their previously filed state tax returns. Since neither bill supported re-instituting any of those previously eliminated deductions, many, if not most, Maryland taxpayers would not be in position to avail themselves of decoupling and would continue to take the standard on their state returns along with their federal returns.

Think about the logic, or, rather illogic, of the reasoning behind the fiscal note. Because these deductions are no longer available, is it reasonable to assume that all of the taxpayers who jumped from itemizing on their state returns to taking the state standard deduction because of the federal plan all of a sudden go back to itemizing on their state return if they no longer have the tax deductions to deduct?

I can assure you the answer is no. The assumption that some 690,000 Maryland taxpayers would jump back to itemizing on their state return after taking the state standard as a result of the federal tax plan is the entire basis of the fiscal note. That $118 million price tag of decoupling only made a sliver of sense if the calculation includes adding back the eliminated deductions, which tjis bill does not.

Additionally, we need to remember that the $118 million revenue decrease projected if the decoupling bill becomes law should be compared to the tax windfall for Maryland that happened after the Federal tax changes. In the 2018 tax year, because of the elimination of or reduction in tax deductions, MD collected over $1.2 billion in extra taxes over the amount collected in 2017.[1]

Fortunately, at the request of Delegate Wivell, DLS has reconsidered the fiscal note and the price tag has drastically been reduced from that on previous iterations of HB 1111.

The only victims of not allowing decoupling are those Maryland taxpayers who itemized

[1] Data from Income Tax Summary Report for Tax Year 2017 and Income Tax Summary Report for Tax Year 2018, prepared by State of Maryland, Office of the Comptroller, Revenue Administration Division, and on the Comptroller's website at https://www.marylandtaxes.gov/reports/income-summary.php.

on their state returns and still have enough deductions to continue to itemize on their state returns even if they must forego the newly increased federal standard deduction. That only helps the federal government and has no impact on state revenue since itemizing before decoupling and itemizing with decoupling does not change state revenue.

The revised fiscal note incorporates cost data on those taxpayers who would benefit from the increased federal standard deduction even if it means taking the lower state standard deduction in lieu of a more beneficial itemization on the state return. This certainly is a smaller segment of the population than all taxpayers who moved from itemizing to taking the state standard as indicated in the fiscal note. This calculation now provides accurate cost analysis and is drastically lower than the estimate in the previous fiscal note of some $118 million.

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

Passage of HB 1111 will send a very positive message to your taxpaying/voting constituency, and is consistent with Governor Hogan’s goal to put more money in the pockets of Maryland taxpayers hurting financially from impacts of the pandemic.

(Of note, the Maryland Association of CPA's has supported DECOUPLING)

We urge the Committee to issue a favorable report to HB 1111.