

Testimony in Support of HB708
Tax Parity for Delayed Unemployment Insurance Payments
Ways and Means Committee - March 2, 2023

What the bill does: This bill promotes fairness for unemployed Marylanders by extending the impact of the RELIEF Act of 2021 by establishing a rebate program to refund the taxes withheld from Unemployment Insurance (UI) payments received by constituents in 2022 after UI processing delays.

The problem: The RELIEF Act of 2021 was an essential piece of COVID-19 response legislation which exempted UI payments from state taxes for tax years 2020 and 2021. After the devastating economic hardships that the COVID-19 pandemic caused, this legislation provided working families and small businesses across the state with an opportunity to recover. Unfortunately, due to the unprecedented increase in UI applications during this period, the Department of Labor (MDOL) was overcapacity, and many Marylanders experienced significant delays in receiving their funds.

The RELIEF Act, as written, did not envision that delays at MDOL would cause benefits earned during calendar years 2020 and 2021 to extend payments into Tax Year 2022. A District 46 constituent reached out to me in my capacity as Delegate in mid-2022 asking if there was anything we could do about the taxes withheld from a UI payment just because their case took longer than expected to be approved by the MDOL. We then discovered that this was a system problem – the thousands of Marylanders who had been kept waiting by MDOL were then penalized by having to pay tax on payments through no fault of their own.

One Solution: This bill will bring the recipients of UI payments in 2022 into parity with other similarly-situated taxpayers whose benefits were both earned and paid during the timeframe envisioned by the RELIEF Act.

The RELIEF Act’s legislative intent was preempted due to the influx of UI claims by constituents in the first years of the pandemic, but this bill is our opportunity to see that the intended goals of the RELIEF Act are met.

- ~45,000 Marylanders had tax withholdings in calendar year 2022 for benefits earned in 2020/2021
- ~\$168M in UI payments with taxes withheld, \$128M in UI payments without taxes withheld
- ~\$11M withheld would be returned to those Marylanders
- ~35,000 Marylanders did not withhold and could owe up to \$9M on their 2022 taxes

# of claimants in 2020		UI Associated	
8458	no tax withheld	\$28,370,678.00	Amount paid with no tax withheld
13016	chose tax withholding	\$39,810,554.00	Amount paid with tax withheld
		\$2,663,643	Amount paid in State Taxes
# of claimants in 2021		UI Associated	
26433	no tax withheld	\$99,935,224.00	Amount paid with no tax withheld
32626	chose tax withholding	\$128,622,573.50	Amount paid with tax withheld
		\$8,627,250	Amount paid in State Taxes



Through no fault of their own, these Marylanders lost out on approximately \$250 per person – just shy of the economic impact payments contemplated by other provisions of the RELIEF Act. These 80,000 Marylanders should have had these funds in hand to pay bills and buy groceries during the worst of the pandemic, but – through no fault of their own – the process took nearly two years, in many cases. The General Assembly can help make this right – and make it fair – by passing this bill.

I urge your favorable report on HB708.

A handwritten signature in black ink, appearing to read "Brooke E. Lierman". The signature is fluid and cursive, with a long, sweeping underline.

Brooke E. Lierman
Comptroller of Maryland

AMENDMENTS TO HOUSE BILL 708
(First Reading File Bill)

AMENDMENT NO. 1

On page 1, in line 5, after “circumstances;” insert “allowing a subtraction under the Maryland income tax for the amounts of grants paid in accordance with this Act;”; and in the same line, after “to” insert “the taxation of”.

AMENDMENT NO. 2

On page 2, in line 7, strike “during calendar year 2022” and substitute “after December 31, 2021, but before January 1, 2023”; strike beginning with “during” in line 10 down through “benefits” in line 12 and substitute “after December 31, 2019, but before January 1, 2022”; strike beginning with “promptly” in line 14 down through “2021” in line 15, and substitute “received the benefits after December 31, 2019, but before January 1, 2022”; in line 16, after “be” insert “:

(1)”;

in lines 16 and 18, in each instance, strike “exact”; in line 17, after “withheld” insert “from unemployment insurance benefits by the Department of Labor after December 31, 2021, but before January 1, 2023;”; in the same line, strike “, if an individual elected to not have” and substitute:

“(2) if”;

in line 18, after the first “taxes” insert “were not”; in the same line, after “withheld” insert “from the unemployment insurance benefits”; in line 19, strike “to do so,” and substitute “that State income taxes be withheld”; strike beginning with “during” in line 19 down through “2022” in line 20 and substitute “after December 31, 2021, but before January 1, 2023”; in line 23, after “section” insert “that includes:

(1) the name, address, and Social Security number of each individual who received the unemployment insurance benefit;

(2) the date of payment of each unemployment insurance benefit described in subsection (a) of this section;

(3) the amount of each unemployment insurance benefit described in subsection (a) of this section;

(4) whether or not State income tax was withheld from each unemployment insurance benefit payment; and

(5) any other information about the unemployment insurance benefits or the individuals who received those benefits that the Comptroller may require”;

after line 23, insert:

“(d) For a taxable year beginning after December 31, 2022, but before January 1, 2024, in addition to the modifications under Title 10, Subtitle 2 of the Tax – General Article, the amount of the grant under subsection (a) of this section is subtracted from federal adjusted gross income to determine the Maryland adjusted gross income of an individual.”.

Good afternoon ladies and gentlemen,

My name is Jeff Carmen and I live in the Highlandtown neighborhood of Baltimore and am one of then, Delegate Lierman's constituents. In 2021, during the height of the COVID-19 pandemic, my unemployment benefits suddenly stopped without cause or explanation. The backlogged caseload led to countless calls being answered by a generic recording stating to call back later as all agents were busy. It was months before I spoke to an actual person but still, no one was able to explain why the unemployment benefits had stopped or to move my case forward to resolution. Finally, out of desperation, I contacted then Delegate Lierman's office in June of 2022 and in little over a months time the issue was resolved.

However there was an unforeseen consequence that this created and that was my tax liability. I didn't see it as fair that the unemployment benefits that had been awarded to me in 2020 and 2021 during the pandemic that would otherwise have been untaxed under the RELIEF Act of 2021 now be taxed simply because the benefits were paid in 2022 by no fault or error of my own.

HB708/SB661 otherwise known as The Tax Parity for Delayed Unemployment Insurance Payments Bill, would simply level the playing field and provide welcome relief for myself and the tens of thousands of Marylanders who were not afforded this relief and their unemployment benefits when they were due to be paid while the RELIEF Act of 2021 was in effect.

In closing, I respectfully request your favorable report on HB708/SB661.

Regards,

Jeffrey Carmen



HB 708 - Unemployment Insurance – Tax Parity for Delayed Payments of Benefits
House Ways and Means Committee
March 2nd, 2023
SUPPORT

Chairman Guzzone, Vice-Chair and members of the committee, thank you for the opportunity to submit testimony in support of House Bill 708. This bill will establish a rebate program to refund the taxes withheld from unemployment insurance (UI) payments received in 2022, as a result of cases being delayed during 2020/2021.

The CASH (Creating Assets, Savings and Hope) Campaign of Maryland promotes economic advancement for low-to-moderate income individuals and families in Baltimore and across Maryland. CASH accomplishes its mission through operating a portfolio of direct service programs, building organizational and field capacity, and leading policy and advocacy initiatives to strengthen family economic stability. CASH and its partners across the state achieve this by providing free tax preparation services through the IRS (Internal Revenue Service) program 'VITA (Volunteer Income Tax Assistance)', offering free financial education and coaching, and engaging in policy research and advocacy. **Almost 4,000 of CASH's tax preparation clients earn less than \$10,000 annually. More than half earn less than \$20,000.**

In 2021, the General Assembly passed the RELIEF Act, which was an emergency bill aimed at providing economic relief to Marylanders impacted by COVID-19. The bill, along with other things, exempted UI payments from state taxes for tax years 2020 and 2021. During the pandemic, the unemployment rate went up to 9.5% and the average unemployment rate for 2020 and 2021 was 6.5%. Thousands of people were affected by industries closing and the overall economic downturn. Due to those unprecedented times, Maryland Department of Labor (MDOL) was quickly inundated with many UI cases. As a result, thousands of individual cases were delayed, and consequentially thousands of people did not receive their 2020/2021 UI payment until 2022.

HB 708 would establish a rebate program that would refund the taxes withheld from those that had UI cases in 2020 and 2021 but received UI payments received in 2022. The rebate program would apply the RELIEF Act exemptions to payments that were originally intended to be paid in 2020/2021. This would ensure that recipients who UI benefits were delayed still have the same benefits as other recipients who were able to receive their UI benefits within the intended timeframe.

When the RELIEF Act of 2021 passed, it was unclear that UI cases would be delayed until 2022. Those late payments lead to more than 80,000 Marylanders who received nearly \$300M in benefits during 2022 that were intended to be paid in 2020 or 2021. Now, UI recipients have lost out on funds due to the UI system being overburdened. Maryland can return the state taxes withheld from those payments and give those UI recipients the exemption they qualify for.

For these reasons, we encourage you to return a favorable report for HB 708.

Creating Assets, Savings and Hope



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To: Ways and Means Committee

From: The Maryland Society of Accounting and Tax Professionals, Inc. HB708 By:

Re: The Speaker (By Request – Office of the Comptroller

Contact Person: Giavante Hawkins, Executive Director

Position: SUPPORT

Unemployment Insurance – Tax Parity for Delayed Payment of Benefits

The MD Society of Accounting and Tax Professionals has 2,000 CPA's and Professional Tax members, representing over 700,000 Maryland residents. The MD Society of Accounting and Tax Professionals supports bill HB708.

The purpose of the RELIEF Act was to provide economic relief to individuals and businesses affected by the COVID-19 pandemic. The delays at the MD Department of Labor were outside of the control of the individuals receiving unemployment benefits, and it is unfair to penalize these individuals by requiring them to pay taxes on benefits that were earned in a previous tax year but not received until the following year. Suppose these individuals who received unemployment benefits are required to pay taxes on those benefits for a tax year in which they did not receive the benefits. In that case, this could offset some or all of the relief provided by the act, particularly for individuals who were in dire financial straits due to the pandemic.

A rebate program to refund the taxes paid on unemployment benefits received in 2022 would bring these individuals into parity with other taxpayers whose benefits were both earned and paid during the time frame envisioned by the RELIEF Act. This would help to ensure that all individuals receiving unemployment benefits are treated fairly and receive the intended relief from the act.

We applaud the Maryland legislature for acknowledging how the above-referenced performance affected Maryland residents. While we believe the solution proposed herein does not make whole those who were adversely affected during a difficult time we find the proposed solution a creative way to attempt to right a wrong.

Therefore, we urge a FAVORABLE report on HB708