



NATIONAL ACTIVE AND RETIRED FEDERAL EMPLOYEES

MARYLAND FEDERATION

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Statement of the Maryland Federation of National Active and Retired Federal Employees – State Legislative Committee

House Bill 647

Income Tax – Itemized Deductions

Good afternoon, Madame Chair and Members of the Ways and Means Committee. My name is Paul Schwartz, and I am the Chair of the State Legislative Committee (SLC) of the Maryland Federation of NARFE, the National Active and Retired Federal Employees Association. We represent approximately 300,000 Federal employees and annuitants living in Maryland.

House Bill 647 would allow Maryland taxpayers to itemize deductions to compute Maryland taxable income whether or not

they itemized deductions on their federal income tax return.

We have been advocates for legislation to permit Maryland taxpayers to decouple their federal and state tax returns for several years since 2018 when the federal tax plan went into effect and raised the federal standard deduction while eliminating or reducing many middleclass tax deductions, admittedly, unsuccessfully.

There are two reasons why this bill has not been able to make it out of committee. Let me explain why neither reason is justified.

The first reason is the cost associated with decoupling as outlined in the fiscal note. According to the explanation I received from Robert Rehrmann, the original author of the fiscal note, and I quote: “Initial analysis of tax year 2017 and 2018 data show that taxpayers claiming State itemized deductions decreased by 670,900, a reduction of slightly less than one-half, with a similar increase in taxpayers claiming the State standard deduction (687,600).”

The exorbitant anticipated loss of revenue is based on the false assumption that decoupling the state and federal returns will result in these 680,000 some taxpayers returning to itemizing their state tax returns.

This assumption is false for the simple reason that, since none of the eliminated middle class tax deductions are reinstated in either this bill or any other bill, the likelihood of all of these taxpayers returning to itemize on their state returns is remote at best.

The second reason is that, with decoupling, our state tax auditors will not have the ability to rely on IRS itemized data if a taxpayer

takes the standard deduction on the federal return and itemizes on the state return.

I spoke about both of these issues with our new Comptroller, Brooke Lierman, and let me tell you she gets it, something her predecessor did not.

She is committed to modernizing the Comptroller's Office and told me straight out that lack of resources is not an excuse for her office NOT doing what is required. If resources are needed, she said to me, it is her responsibility to get the needed resources. **ASK HER YOURSELF!**

Bottom line is that Maryland taxpayers should not be penalized by forcing them to lose out on an increased federal standard deduction if, for whatever reason, they still find it more beneficial to itemize on their state return.

This is an issue of tax fairness. Moreover, since this particular bill is phased in, it gives time to measure the true impact of decoupling over time.