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HB 1390 – Income Tax – Subtraction Modification – Losses From Theft or Fraud
FAVORABLE
House Ways and Means Committee
March 4, 2025

Good afternoon, Chairman Atterbeary and Members of the House Ways and Means Committee. My name is Karen Morgan, and I serve on the Executive Council for AARP Maryland. Representing nearly 850,000 members, AARP Maryland is one of the largest membership-based organizations in the state. We thank Delegate Vogel for sponsoring this important legislation.

AARP is a nonpartisan, nonprofit organization dedicated to empowering people to live their best lives. We advocate on key issues affecting families, including health care, financial security, retirement planning, and protection from financial abuse.

HB 1390 is intended to address the cruel reality of tax liability for victims of fraud after passage of the federal Tax Cut and Jobs Act of 2017. The federal law rescinds the ability for individuals who have had money stolen in a scam to deduct those funds so that they do not owe taxes on that money. Because Maryland tax law tracks the federal law very closely, the federal change also applies to Maryland state taxpayers. A person who is defrauded of \$100,000 from their 401k investment account, for example, now not only has to endure the loss of those funds, but that loss is then considered income under federal and Maryland tax laws. The loss is treated as an ordinary withdrawal, not a theft. So that person now owes taxes – thousands of dollars in this example - on money that was stolen from them.

AARP Maryland strongly supports HB 1390. This bill would restore the ability for an individual to deduct monies stolen due to fraud from their state income taxes.

According to the Federal Trade Commission, in 2023, individuals nationwide reported over 51,000 occurrences of fraud involving bank transfers or payments, resulting in nearly \$1.8 billion in stolen funds just for that year. Imagine being someone who is in her 70's and retired, suffering a loss of savings that were supposed to provide financial security, only to be told that she must now pay taxes on that stolen money, too.

This nightmare scenario is what happened to Kate Kleinert, a woman who turned a devastating financial tragedy into national service. Kate Kleinert is now one AARP's national ambassadors. She travels the country to talk to people about how to protect themselves from fraud. But before she became an ambassador, Kate Kleinert was a retired secretary and widow who became involved in an online romance with a crook who posed as a United Nations surgeon in Iraq. He promised to meet her in her home state of Pennsylvania, where she had already begun house shopping, as she expected to get married and start a new life with this man. But then he claimed that he had

been arrested and needed \$20,000 for bail. After giving the crook the money for bail, he wanted more and more money. She ultimately depleted her finances – a total of \$39,000. Imagine her shock when her tax accountant told her that not only did she not have her \$39,000 in assets – money that was sorely needed as that was her major source of financial security - but on top of that, she owed another \$5,000 in federal taxes because those stolen funds were considered “income”.

What happened to Kate Kleinert has happened to thousands of people all over the country, including Maryland residents. According to the Federal Trade Commission, Maryland ranked 5th in the country for reported fraud and 11th in the country for reported identity theft crimes. Reported losses amounted to over \$164 million in Maryland alone. Unfortunately for the crime victims, a good portion of those losses were likely treated as income for state and federal tax purposes. And we know the reported crimes are only the tip of the iceberg because so much of fraud crime goes unreported.

There are collateral consequences to this tax liability, too. If a person is a Medicare recipient, their Part B and Part D premiums are determined by their income. Income over specified amounts is subject to the Income-Related Monthly Adjustment Amount (IRMAA). That means that Medicare recipients pay more than the standard 2025 Medicare Part B premium of \$185.00 if their modified adjusted gross income exceeds specified amounts. It’s easy to visualize a scenario where a Medicare beneficiary who is victimized by the theft of thousands of dollars from their retirement or investment account, now not only has that loss treated as taxable income, but their Medicare premiums also increase due to the IRMAA surcharge.

Passage of HB 1390 would alleviate some of the pain for fraud victims because they would not have to pay state taxes on money that was stolen due to fraud. Accordingly, AARP Maryland respectfully requests that the House Ways and Means Committee issue **a favorable report on HB 1390**. For any questions, please contact Tammy Bresnahan, Director of Advocacy for AARP Maryland, at tbresnahan@aarp.org or 410-302-8451.