

SB163.pdf

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Judicial Proceedings Committee



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THE SENATE OF MARYLAND
ANNAPOLIS, MARYLAND 21401

January 2, 2026

The Maryland State Senate Budget and Taxation Committee
The Honorable Guy Guzzone, Chair
3 West Miller Senate Office Building
Annapolis, Maryland 21401

**RE: Senate Bill 163 – Income Tax – Addition Modification for Federal Tax-Exempt Income
– Alterations**

Chair Guzzone, Vice-Chair Rosapepe, and Members of the Budget and Taxation Committee,

Thank you for the opportunity to present Senate Bill 163. The purpose of this seemingly complicated but actually simple bill is merely to clarify Maryland tax law regarding the treatment of foreign earned income that is presumably taxed in the foreign country where it is earned and is already excluded from federal taxation under Section 911 of the Internal Revenue Code. Specifically, SB 163 clarifies that this foreign earned income will not be taxed in Maryland either.

The fiscal note clearly lays out the issue. It notes that in its 2024 decision in *Cosgrove, et al. v. Comptroller*, the Appellate Court of Maryland explicitly noted that Maryland law is unclear as to whether Maryland income tax must be paid on foreign earned income. The Court further noted that the General Assembly has previously understood that federal exclusions for foreign earned income also apply in Maryland.

In the *Cosgrove* case, the Maryland Comptroller acceded to the taxpayer's position and paid him the refund he sought with interest. The fiscal note as to this bill states, "The Comptroller's Office has advised the Department of Legislative Services that the Comptroller's position is that the addition modification under [Maryland law] does not apply to foreign earned income within the meaning of IRC Section 911." Thus this bill merely codifies the Comptroller's interpretation of existing law. Accordingly, this bill will have no fiscal impact on Maryland.

So Senate Bill 163 resolves the ambiguity identified in *Cosgrove* directly and narrowly. It does not create a new exclusion, expand eligibility, or reduce existing federal limitations. Instead, it aligns Maryland law with the federal definition of foreign earned income under § 911 and makes explicit that such income is not subject to the state add-back provision. This approach promotes fairness, consistency, and predictability in Maryland's tax system.

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Clear tax statutes benefit both taxpayers and the State. They reduce unnecessary disputes, limit administrative burden, and ensure that tax policy reflects legislative intent. SB 163 provides that clarity.

I appreciate the Committee's consideration of Senate Bill 163 and will be happy to answer any questions.