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The Honorable Delegate Jheanelle K. Wilkins
Chair, House Ways and Means Committee
House Office Building
Room 131
6 Bladen Street
Annapolis, MD 21401

Maryland Society of Accounting and Tax Professionals

Re: House Bill 201 Income Tax Tips or Gratuities Subtraction Modification

Chair Wilkins and Members of the Committee,

The Maryland Society of Accounting and Tax Professionals represents over 1,400 tax and accounting professionals who collectively serve more than 400,000 Maryland taxpayers and small businesses. We respectfully submit this testimony in opposition to House Bill 201.

House Bill 201 introduces a broad income tax subtraction for tip and gratuity income without income caps or clear limitations. As drafted, the bill creates unequal tax treatment among workers earning similar total compensation and incentivizes compensation restructuring to minimize State tax liability.

From an administrative perspective, this proposal creates significant complexity. Tip income would remain taxable at the federal level while being excluded for Maryland purposes, requiring separate tracking, withholding adjustments, and reconciliation. Cash-based tip income is already difficult to verify, and this divergence increases the risk of underreporting and noncompliance for both employers and employees.

Additionally, the bill establishes an entirely new state-specific framework rather than conforming to federal treatment. The legislation does not distinguish between voluntary tips and mandatory gratuities, meaning all tips would be eligible for the subtraction. This approach is broader than the current federal No Tax on Tips framework, which excludes mandatory gratuities. The lack of this distinction introduces ambiguity, inconsistent application, and increased audit risk. The absence of a cap on the amount of tip income eligible for subtraction also raises serious fiscal concerns. Without limits, the bill creates the potential for unreasonable State revenue loss and opens the door to abuse, including the reclassification of base wages as tips within payroll systems to reduce tax liability.

It is important to note that if this legislation were structured to simply conform to federal treatment of tip income, the administrative burden would be significantly reduced and compliance more straightforward. In that case, the Maryland Society of Accounting and Tax Professionals would be more inclined to support such a measure. As drafted, however, House Bill 201 adds undue complexity to an already complex tax system without adequate safeguards.

For these reasons, the Maryland Society of Accounting and Tax Professionals respectfully urges an Unfavorable Report on House Bill 201.

Respectfully Submitted,

Giavante Hawkins
Giavante' Hawkins