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**HB 323 – Income Tax - Credit for Income Taxes and Penalties Due to Financial
Exploitation
House Ways and Means Committee
February 5, 2026
FAVORABLE**

Good afternoon, Chair Wilkins, Vice Chair Feldmark, 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 Stewart for sponsoring this important legislation that provides a credit against the State income tax for penalties attributable to early withdrawal of retirement funds due to financial exploitation.

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.

When Congress passed the federal Tax Cuts and Jobs Act of 2017, it eliminated the ability of fraud victims to deduct financial losses caused by theft. Because Maryland tax law closely follows federal law, this harmful change carried over to state taxpayers as well.

This means that when someone is scammed out of their hard-earned money, even money withdrawn from a retirement account without their knowledge, the IRS and Maryland Comptroller treat that loss as taxable income. For example, if an individual has \$100,000 stolen from a 401(k), the loss is treated as a voluntary withdrawal rather than a theft, leaving the victim owing thousands of dollars in taxes on money they never actually received.

Fraud affects tens of thousands of people each year. In 2023 alone, individuals nationwide reported more than 51,000 cases of bank-transfer fraud, with nearly \$1.8 billion stolen. Imagine being someone in her 70s, retired, who has lost savings that were supposed to provide financial security, only to be told 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 of 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 bail

money, he kept asking for more. She ultimately depleted her finances, totaling \$39,000. Imagine her shock when her tax accountant told her not only that she didn't have her \$39,000 in assets, but also 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 for reported identity theft. Reported losses amounted to over \$164 million in Maryland alone. Unfortunately for the crime victims, a good portion of those losses was 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 fraud goes unreported.

There are collateral consequences to this tax liability as well. For older adults on Medicare, treating stolen funds as income can trigger higher monthly premiums, adding yet another financial penalty on top of the original loss.

Fraud victims have already experienced financial trauma, and they should not be punished again by being taxed on the money stolen from them. Passage of HB 323 would alleviate some of the pain for fraud victims, as they would receive a credit on the taxes owed on money lost through fraud.

AARP Maryland respectfully requests that the House Ways and Means Committee issue a favorable report on HB 323.

If you have any questions, please contact Sara Westrick, AARP Maryland Advocacy Director, at swestrick@aarp.org or by calling 410-310-0374.