

Testimony Paul Schwartz HB 788 – February 21, 2020 – House Ways & Means

My name is **Paul Schwartz** and I am here today representing not only **NARFE**, but I am also representing **middle class taxpayers in Maryland**

The most important point I will make today is this: The windfall that found its way into the Maryland State Treasury as a result of the elimination of middle class tax deductions resulting from the passage of the Federal tax plan in December 2017 is a completely separate issue from DECOUPLING federal and state tax returns.

They are two distinct and separate issues. Please don't confuse the two.

Passage of SB 486 will in no way impact your use of that windfall, estimated in the area of around \$400 million, to fund whatever you want including Kirwan.

When Trump announced the Federal tax plan he said that YOU will no longer need to itemize because of the newly **doubled federal standard deduction**

That might work in low taxed red states like Mississippi, but not in high taxed blue states like Maryland, Connecticut and New York

Why you ask? Because doubling the federal standard deduction for joint returns from \$12000 to \$24000 also came with the elimination of the personal exemption of \$4000 each for you and your spouse – total of \$8000.

So you are really comparing \$24K to \$20K not \$12K, not much of a difference

Even without the middle class tax deductions that were eliminated or capped, middle class Maryland taxpayers still ordinarily do better overall when they itemize on both their federal and state returns than taking the standard for both.

I have spoken to groups across this state and whenever I ask about the results of doing it both ways – standard on both or itemize on both – the answer is almost always they did better itemizing on both even without those eliminated middle class tax deductions that created that windfall

That is why the fiscal note is completely absurd. Suffice it to say that few are **running** to the newly raised federal standard deduction. They are still, for the most part, itemizing as they did before to maximize their overall tax benefit.

If they itemized on their state return prior to the increased federal standard and now, with DECOUPLING, they choose to continue to itemize on their state return **HOW IS THAT A LOSS OF REVENUE?**

If they do choose to take the newly increased standard on their federal return and you **FORCE** them to take the minuscule state standard deduction that is a revenue increase for the state **BUT** there is **NO REVENUE LOSS** from previous years

What we have now is a situation in which taxpayers are **penalized** when they itemize to maximize their **overall** tax benefit even if their federal itemized deductions fall short of the newly increased standard deduction on the federal return.

Who does that help? **NOT** Maryland, not the taxpayer, only the federal treasury because, without DECOUPLING, if itemized deductions at the federal level come to, for example, \$23K and, because of no DECOUPLING, the taxpayer can't take the higher federal standard, the federal treasury gains \$1000.

Now, the only possible additional expense has, again, nothing to do with the Maryland state windfall resulting from the elimination of deductions

It is the need for possibly a few more auditors or software during the three month tax season because if a taxpayer now itemizes on the state return but now, with DECOUPLING, is allowed to take the standard on the federal return, IRS algorithms would not be used for that specific situation

When I mentioned this to Boyd Rutherford, he was confident that Peter Franchot could make the adjustment without new hires

The taxpayer should be **entitled** to itemize even without the eliminated deductions so why

FORCE them to take the **state standard deduction** just to avail themselves of the new federal standard?
DONT PENALIZE MARYLAND MIDDLE CLASS TAXPAYERS FOR ITEMIZING ON
THEIR STATE RETURNS

Passage of HB 788 will send a very positive message to your taxpaying/voting constituency
Of note, the Maryland Association of CPA's has supported DECOUPLING