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HB0788 – Income Tax – Itemized Deductions

HB788 seeks a completion of the work that was started by the Legislature in the 2018 session. In that year, the Legislature decoupled from the federal code for personal exemptions. Had that action not been taken, Marylanders would have completely lost the personal exemption as the Federal Tax Code increased the standard deduction and phased-out the \$4,150 personal exemption as a temporary measure for tax years 2018 through 2025.

HB788 asks you to do the same for itemized deductions as was done for personal exemptions – decouple them from the federal tax code and allow Marylanders to itemize deductions on their State return regardless of whether they have itemized on their Federal income tax return.

The 2017 Federal Tax Cuts and Jobs Act (TCJA) was the largest re-write of the Federal tax code since the Tax Reform Act of 1986. Other than the personal exemption, an item within the 2017 Act that probably has one of the greatest impacts on MD taxpayers is this change affecting the Federal itemized and standard deduction. As previously stated, the Federal government eliminated the personal exemption and roughly doubled the standard deduction as follows:

Federal Basic Standard Deduction

	Pre-TCJA	Post-TCJA
Married filing joint	\$12,700	\$24,000
Head of Household	\$9,350	\$18,000
Single	\$6,350	\$12,000

This action by the Federal government has intentionally kept most taxpayers from itemizing deductions on their federal return.

HB788 would still use the federal itemized deductions as the starting point for Maryland. This is an easy approach as this information would already be entered into the various tax preparation software for the analysis at the Federal level. Using this approach, Maryland tax revenues under post-TCJA would be higher than pre-TCJA because of the many base-broadening provisions in the TCJA. These include a lower cap on the mortgage interest deduction and other changes to interest deductibility, caps on state and local tax deductions, and elimination of the itemized deductions subject to the 2% AGI limitation, such as tax preparation fees, investment fees, unreimbursed employee business expenses, and union dues.

There is a competitive nature to state taxation of its residents and both businesses and individuals choose where to do business or reside based upon this competitiveness. Doing nothing negatively impacts our ratings/rankings when compared to other states, as many states have already enacted, or are enacting, substantive tax changes in their respective tax codes in response to passage of the 2017 Federal Act.

The Virginia legislature increased that state's standard deduction by 50%, raising it to \$4,500 for individuals and \$9,000 for married, filing joint filers, returning an estimated \$420 million to Virginia taxpayers. Virginia's standard deduction is double that of Maryland's at a maximum \$2,250 for single taxpayers and \$4,550 for joint filers. Meaningfully increasing the standard deduction is another way to obtain the same result as decoupling the itemized deduction. HB788 does not address the standard deduction.

Thank you, and I ask for a favorable report on HB788.