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Economic Matters Committee

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**HB0647 – Income Tax – Itemized Deductions**

A variation of HB647 was introduced in the 2021 session as HB1111. Again, this session, the bill seeks a completion of the work that was started by the Legislature in the 2018 session. In that year, the MD 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.

HB0647 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.

Because of the traditionally high fiscal note, I have placed a sunset in the bill so that its requirements are applicable only for tax years after December 31, 2022 and prior to January 1, 2026, and have placed a requirement for the Comptroller’s office to report to the Legislature of the actual financial impact of this legislation on the income tax revenues of the State. The Federal legislation regarding the standard deduction and phase-out of the personal exemption is also scheduled to sunset on December 31, 2025.

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**

	<u>Pre-TCJA</u>	<u>Post-TCJA</u>
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. For 2023, the Federal Basic Standard Deduction is \$27,700 for joint filers and \$13,850 for single filers.

HB0647 would still use the federal itemized deductions as the starting point for Maryland – a simplified approach as this information would already be entered into the various tax preparation software programs for the analysis at the Federal level. Using this approach, Maryland tax revenues under post-TCJA for those itemizing deductions would be higher than pre-TCJA because of the many base-broadening

provisions in the TCJA. These provisions 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.

In nearby Virginia, beginning in 2022, that state's standard deduction is \$8,000 for single filers and \$16,000 for married, filing joint filers. Maryland's standard deduction remains at a maximum value of \$2,400 for single filers and \$4,850 for joint filers. Meaningfully increasing the standard deduction is another way to obtain the same result as decoupling the itemized deduction. HB0647 does not address the standard deduction.

Thank you, and I ask for a favorable report on HB0647.