



NATIONAL ACTIVE AND RETIRED FEDERAL EMPLOYEES

MARYLAND FEDERATION

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October 18, 2020

Senator Brian Feldman
104 James Senate Office Building
11 Bladen Street
Annapolis, MD 21401

Dear Senator Feldman:

The National Active and Retired Federal Employees (NARFE) thanks you for your introduction earlier this year with Senator Serafini of Senate Bill 486, “An Act concerning Income Tax – Itemized Deductions,” which would allow an individual to itemize deductions to compute Maryland taxable income whether or not that individual itemizes deductions on that individual’s federal income tax return.

As you are aware, the necessity for this legislation was caused by the federal tax changes in 2017, which made it advantageous for many taxpayers to not itemize on their federal returns. However, by doing this, it disqualified them from taking itemized deductions on their Maryland tax returns. NARFE strongly supported the aforementioned bill as it represented a major step towards bringing tax fairness to Maryland taxpayers. This view is also supported by the Maryland Association of Certified Public Accountants.

Unfortunately, as you know, both Senate Bill 486 and its counterpart in the House, HB 788, failed to move out of either the Senate Budget & Taxation Committee or the House Ways & Means Committee. The primary reason for failure was the fiscal note that incorrectly projected an average loss of some \$118 million in revenue to Maryland for each year from FY 2021 to FY 2024. The problem with the fiscal note is that it seems to be based entirely on the false assumption that all Maryland taxpayers who had previously taken the standard deduction on their state returns would all choose to go back to itemizing on their state returns if allowed to decouple their return from their federal returns. This, of course, is a false assumption since the federal tax plan of 2017 eliminated many of the deductions that Maryland taxpayers had previously deducted on their previously filed state tax returns. Since your bill did not support re-instituting any of those previously eliminated deductions, many, if not most, Maryland taxpayers would

not be in position to avail themselves of decoupling and would continue to take the standard on their state returns along with their federal returns.

As I said, however, many but not all. There are Maryland taxpayers who itemized before decoupling and will continue to itemize after decoupling and that represents no change to state revenue. Decoupling would, however, allow these taxpayers to avail themselves of the increased federal standard deduction while they continue to itemize on their state returns. It is for these taxpayers that your legislation is so critical.

A properly done fiscal note should include cost data that is based on just those taxpayers who would benefit from the increased federal standard deduction even if it means taking the lower state standard deduction in lieu of a more beneficial itemization on the state return. This certainly is a smaller segment of the population than all taxpayers who moved from itemizing to taking the state standard as indicated in the fiscal note. This calculation would provide an accurate cost analysis and would certainly be drastically lower than the estimate in the current fiscal note of some \$118 million.

We recognize that it is fruitless to re-introduce the same bill again this year as long as there is no change to the fiscal note. That is why I am requesting that you seek a review of the fiscal note based on the arguments presented in this letter. My understanding is that it is not uncommon for a sponsor to question the conclusions in a fiscal note and ask for such a review.

It is clear that a reworking of the fiscal note is justified and a revised fiscal note would provide for a successful re-introduction of last year's decoupling bill.

Thank you again for your continued efforts on this important matter.

Sincerely,

Paul K. Schwartz

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