Federal Tax Changes with Potentially Significant Maryland Revenue Impacts

Increased Federal Standard Deduction

- A taxpayer who does not elect to itemize deductions may reduce the taxpayer's adjusted gross income by the amount of the applicable standard deduction in arriving at the taxpayer's taxable income.

- Beginning in tax year 2018, the standard deduction for the federal income tax increases from $6,350 to $12,000 for single filers and from $12,700 to $24,000 for joint filers.

- Under State law, a taxpayer who claims the federal standard deduction is required to claim the standard deduction on their Maryland income tax return.

- The Maryland standard deduction that may be claimed varies by filing status but generally may not exceed $4,000. In tax year 2014, Maryland taxpayers claimed almost $3 billion in State standard deductions. In tax year 2015, approximately 54% of Maryland taxpayers took the federal standard deduction and 46% itemized their deductions.

- The significant increase in the federal standard deduction amount will result in additional taxpayers taking the federal standard deduction instead of itemizing deductions. These taxpayers will now be required to take the State standard deduction, the amount of which is not changing and is generally less than if a taxpayer itemizes their deductions. It is expected that this increase in the number of taxpayers taking the State standard deduction will result in an increase in State and local tax liabilities and revenues.

State and Local Tax Deduction Limitation

- A taxpayer who itemizes deductions may deduct certain taxes paid to State and local governments when determining federal taxable income, including income and property taxes. The deduction for property taxes currently flows through to itemized deductions for the State income tax.

- Under the new federal tax law, a taxpayer's federal itemized deduction for State and local taxes may not exceed $10,000. To the extent a taxpayer pays taxes in excess of the $10,000 limitation, the deduction for property taxes may not flow through to the State income tax, thus leading to an increase in State and local tax liabilities and revenues.

- This provision will particularly impact higher income taxpayers. In tax year 2015, the average State and local tax deduction for lower income taxpayers was $2,946 compared to $251,200 for taxpayers with federal adjusted gross income in excess of $1 million.

Personal Exemptions

- The State personal exemption amount that may be claimed ranges from $0 to $3,200, depending on the taxpayer's federal adjusted gross income. In tax year 2014, approximately 2.9 million Maryland income tax returns claimed the State personal exemption.

- Under current law, the number of Maryland personal exemptions that may be claimed is determined by using the number of exemptions as determined under federal law. The new federal tax law eliminates federal personal exemptions by setting the value of each exemption at zero.

- The change to the federal exemption amounts could cause State personal exemptions to be repealed; if such a repeal did occur, it would result in an increase in State and local income tax liabilities and revenues of several hundred million dollars annually.

Estate Tax

- A doubling of the federal estate tax exemption amount will lead to a reduction in State revenues from the estates of decedents dying on or after January 1, 2019.

- This change will reduce State revenues by approximately $40 million in fiscal 2020, rising to $60 million to $65 million in subsequent fiscal years.

Representative Maryland Taxpayers
Impact of Federal Income Tax Changes

Taxpayer	#1	#2	#3	#4	#5	#6	#7	#8
Filing Status	Single	Single	Single	Joint	Single	Joint	Joint	Joint
Children	None	None	None	1	None	2	2	3
Homeowner	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Income (AGI)	$19,300	$40,000	$65,000	$90,000	$125,000	$150,000	$300,000	$2,500,000
Deduction								
Previous	Standard	Standard	Itemize	Itemize	Itemize	Itemize	Itemize	Itemize
New	Standard	Standard	Itemize	Standard	Itemize	Itemize	Itemize	Itemize
Federal Tax								
Previous	$869	$3,926	$5,776	$7,344	$19,279	$17,388	$64,722	$812,225
New	724	3,169	5,738	6,539	18,568	16,421	58,951	804,557
Tax Change	-$145	-$757	-$38	-$805	-$711	-$967	-$5,771	-$7,668
% Change	-17%	-19%	-1%	-11%	-4%	-6%	-9%	-1%

AGI: adjusted gross income

- In an effort to show the impact of the federal tax changes, the Department of Legislative Services (DLS) has developed some representative taxpayer examples.

- DLS looked at taxpayers at various income levels ranging from $19,300 to $2.5 million. DLS made a series of assumptions about each taxpayer, including whether the taxpayer is a single or joint filer, whether or not the taxpayer has children or owns a home, and if the taxpayer claims the standard deduction or itemizes deductions.

- Each representative taxpayer has a reduction in their overall federal tax liability. However, the size of the reduction varies significantly, ranging from 1% to 19%.

- The significantly higher standard deduction amount combined with the increased federal child tax credit drives the reductions in tax liability for lower- and middle-income taxpayers.