The 60-Day Report

Perpared by the

MARYLAND BUREAU OF REVENUE ESTIMATES

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COMPTROLLER of MARYLAND
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January 25, 2018

Honorable Lawrence J. Hogan, Jr.
Governor of Maryland
State House
Annapolis, Maryland 21404

Honorable Thomas V. "Mike" Miller, Jr.
President of the Senate
State House
Annapolis, Maryland 21404

Honorable Michael E. Busch
Speaker of the House
State House
Annapolis, Maryland 21404

Dear Governor, President and Speaker:

I am pleased to present you with *The 60 Day Report – A Review of Tax Cuts and Jobs Act of 2017.*

Section § 10-108 of the Tax General Article of the Annotated Code of Maryland requires that the Comptroller's Office report the impact of changes in federal income tax law. The President signed into law H.R.1 of the 115th Congress; *Tax Cuts and Jobs Act of 2017* on December 22, 2017.

Acknowledgements:

I would like to thank my direct reports in the Bureau of Revenue Estimates for their hard work and dedication. A special word of thanks goes to Natalia Medynets, Kevin Ross, and Ben Uy, Analytika; for all of their time and tireless efforts that they have put in for this critical task.

Sincerely,

Andrew M. Schaufele
Bureau of Revenue Estimates, Director

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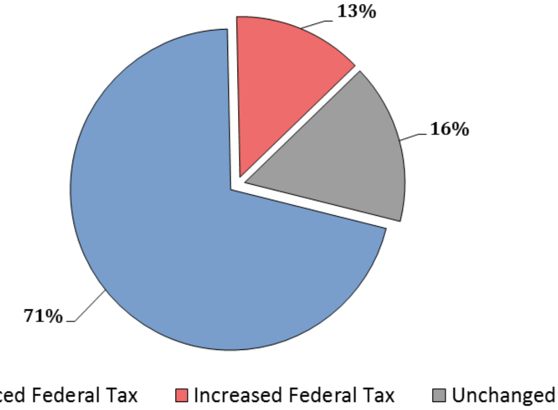
Table of Contents

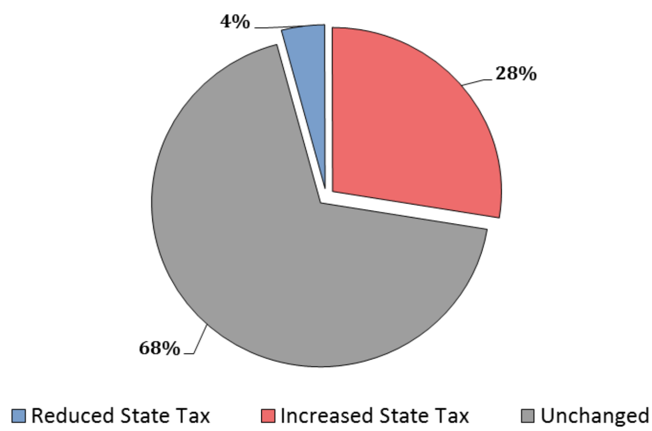
Executive Summary

The Office of the Comptroller presents this *60 Day Report* on the estimated impact on the State of Maryland by the passage and subsequent enactment of H.R.1 of the 115th Congress, otherwise known as the *Tax Cuts and Jobs Act* of 2017 (TCJA).

This report focuses on the changes made by many provisions of TCJA to the personal income tax. Using tax year 2014 to simulate the federal effects of TCJA results in a $2.75 billion net federal tax cut for Maryland taxpayers. In this simulation, assuming taxpayers aim to minimize federal tax, 2.03 million taxpayers, or 71 percent of the Maryland population, saw reduced federal tax for a total reduction of $3.54 billion; 376,000 taxpayers, 13 percent of the State's population, saw increased federal tax of $782 million.



However, because Maryland State and local tax law works in concert with the federal tax code, there will be major impacts to the way the federal income tax is calculated and the manner in which it flows through to the State and local tax. Ultimately, taxpayers should aim to minimize the combined federal-State-local tax owed. In this second simulation, we assumed that 80 percent did just that, while the remaining 20 percent minimized their federal tax. Under these conditions, almost 2 million taxpayers, or 68 percent of the population, saw no change in State and local tax owed.



The major provisions affecting Marylanders federal tax include the suspension of the federal personal exemptions and the $10,000 limitation on the deduction for State and local taxes paid. However, much of the effects of these will be more than offset by the enhanced Child Tax Credit and the increase in the standard deduction.

Notable Impacts	***Fiscal Year 2018***	***Fiscal Year 2019***	***Fiscal Year 2020***
Total State & Local Income Tax Increase	**36,814**	**572,276**	**450,967**
State Income Tax	23,241	361,125	284,383
Local Income Tax	13,573	211,151	166,584
Additional Disposable Income	**572,630**	**3,268,444**	**2,699,119**
State Sales Tax Increase	5,497	31,375	25,910
Education Trust Fund Increase	867	5,095	4,208

The major impact to Maryland income tax revenue comes from the new $10,000 limitation on State and local tax for federal itemized deductions. This will shift many taxpayers into the substantially increased federal standard deduction.

State law is coupled such that a taxpayer taking the federal standard deduction must take the State's much smaller standard deduction. The spread between the two for a married filer is now $20,000 whereas it used to be $8,700. Others that continue to itemize and have more than $10,000 in real estate taxes or any of the other repealed deductions will also see a State tax increase.

Additionally, of particular note is the limitation's effect on charitable contributions. As taxpayers shift to the federal standard deduction, they lose the preferential tax treatment of charitable contributions, which essentially acted as a federal match of a taxpayer's contribution amount at the taxpayer's highest tax rate. If all Maryland taxpayers favored minimizing federal tax, approximately 575,000 who deducted $1.49 billion in income would no longer receive the federal match.

Furthermore, several of TCJA's provisions will create complex dynamic effects in the State's economy, both in terms of macroeconomic impacts as well as on the individual taxpayer level. For example, taxpayers that have a potential source of business income claimed on their individual tax return may find it to their benefit to convert their wages or compensation to qualified business income in order to claim the 20 percent "Qualified Business Income" deduction.

Similarly, because of the reduction in the corporate income tax rates to 21 percent and the elimination of the minimum corporate income tax, businesses may find it beneficial to restructure as a C-corporation. Both of these examples serve to illustrate how TCJA may ultimately have significant ramifications for the State economy.

In general, the legislation as passed is extensive and complex. There is still a considerable level of uncertainty regarding the regulations that will be established by the U.S. Department of the Treasury to ensure clarity of the law. Many business owners will need to await that regulation or possibly even audits or other enforcement efforts from the Treasury Department before they have enough understanding to make structural considerations. In addition, TCJA generates uncertainty at the State level, most notably the State's coupling to federal personal exemptions. Our interpretation is that the State's personal exemptions remain intact. However, clarifying language for such an important aspect of Maryland tax would be preferential.

Disclaimer and General Notes

Tremendous uncertainty remains with regard to administrative procedures that may be undertaken by the U.S. Internal Revenue Service (IRS) or the U.S. Department of the Treasury to implement the laws established under TCJA. The enacted legislation frequently lacks detail or clarity on several complex provisions. There is certain to be a significant number of regulations drafted and applied by the impacted federal agencies, and those regulations may run contrary to our understanding of a certain topic or certain assumptions that we have made in our simulations.

In addition to the uncertainty related to providing estimates for items impacted by certain provisions that have not yet been fully specified by the federal government, the TCJA will certainly create dynamic incentives with regard to the classification of various types of income (i.e., wage and non-wage income), as well as incentives for business restructuring. While the dynamic impact of this bill is extremely difficult to foresee and model, the lack of clarity, particularly for business related issues, further complicates our estimating process.

The intent of this document is to provide a general overview of the provisions impacting Maryland residents. The most significant provisions are included for discussion in this document; certain esoteric items of limited scope are excluded. Furthermore, the descriptions of provisions in this document are not meant to be wholly comprehensive; rather, each is intended to provide an understanding of the provision's broadest impact.

Finally, all estimates within this document are subject to subsequent adjustments. This work is solely the product of the Comptroller of Maryland. Official revenue estimates will be provided by Board of Revenue Estimates through consultation and consensus from the Revenue Monitoring Consensus Group, which is comprised of officials from the Comptroller's Office, the Treasurer's Office, the Department of Budget and Management, the Department of Transportation, and the Department of Legislative Services.

Estimated TCJA Income Tax Impacts on Maryland Tax Revenues

Tables 1 (below) and 2 (next page) show the estimated impact that the TCJA will have on several of Maryland's revenue sources. Maryland's General Fund would increase by $28.7 million and $392.5 million across fiscal years 2018 and 2019, respectively. The Education Trust Fund would realize an additional $867,000 and $5.1 million, respectively. These estimates assume that the State's personal exemptions remain intact.

At times, we include impacts for local income tax; those are cash collections and, when combined with State tax, are representative of the total impact on taxpayers. The local income tax is distributed to local governments using a methodology different than strictly cash-basis; the fiscal year local tax estimates would not be suitable for direct local government use.

With regard to timing, very little impact occurs in the current fiscal year 2018. It is more likely that tax year 2018's impact will occur when the year's tax returns are filed in April 2019, after taxpayers and businesses have begun to react to the new provisions.

Details of the impacts on the amounts of State and local income tax revenues, as well as on sales tax and casino revenues, are also shown below. Supporting documentation for these estimates is contained later in this document.

Table 1. State & Local Personal Income Tax Revenue Impact on Maryland Residents - By Fiscal Year

Dollars in Thousands

Item		Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023
State Income Tax - SubTotal		23,241	361,125	284,383	294,339	304,531	314,762
Local Income Tax - SubTotal		13,573	211,151	166,584	172,362	178,281	184,236
Total State & Local Income Tax Impact		36,814	572,276	450,967	466,701	482,812	498,998

Notes:
(1) Fiscal Year 2019 is higher due to the fact that so much uncertainty exists. It is unlikely that estimated taxpayers will greatly affect their payments before the end of fiscal year 2018 for tax year 2018. Much of the impact is likely to occur later in the year as taxapayers possibly change withholding and then "true up" upon filing their taxes. Could be substantial refunds for tax year 2018 in fiscal year 2019.
(2) The fiscal years are a cash basis for State purposes, these are not intended for estimating local cash basis distibutions.

Table 2. Increase in Resident Disposable Income & Share Spent on Taxable Items and Casinos							
Dollars in Thousands							
Item		Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023
Federal Income Tax Changes Impact		609,444	3,840,720	3,150,086	3,222,901	3,297,400	3,373,621
State and Local Income Tax Flow Through Impact		(36,814)	(572,276)	(450,967)	(466,701)	(482,812)	(498,998)
SubTotal - Change in Disposable Income		**572,630**	**3,268,444**	**2,699,119**	**2,756,200**	**2,814,588**	**2,874,623**
Amount Spent on Taxable Goods		91,614	522,911	431,826	440,959	450,300	459,905
Share Spent on Taxable Goods		16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
Total State Sales Tax Impact @ 6%		**5,497**	**31,375**	**25,910**	**26,458**	**27,018**	**27,594**
Gross Terminal Revenue From MD Casinos		2,944	16,805	13,878	14,171	14,471	14,780
Share to GTR from MD Casinos		0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Total State Education Trust Fund Share		**867**	**5,095**	**4,208**	**4,168**	**4,256**	**4,347**

Notes:
(1) Fiscal Year 2019 is higher due to the fact that so much uncertainty exists. It is unlikely that estimated taxpayers will greatly affect their payments before the end of fiscal year 2018 for tax year 2018. Much of the impact is likely to occur later in the year as taxapayers possibly change withholding and then "true up" upon filing their taxes. Could be substantial refunds for tax year 2018 in fiscal year 2019.
(2) The share spent on taxable goods was determined with a BRE modified version of the Bureau of Labor Statistics' Consumer Expenditure Survey.
(3) Gross terminal revenue (GTR) is net of consumer winnings.

TCJA Impact on Federal Tax for Maryland Residents

We estimate that the TCJA would have resulted in a net federal income tax cut of $2.754 billion for Maryland residents for tax year 2014 (Table 3a, page 7). That impact is the result of a simulation of actual taxpayer data for the majority of provisions. Growing those results and including several other items that could not be included in the simulation, and incorporating a dynamic reaction with Maryland’s current deduction system yields an estimated net federal tax cut of $2.8 billion for tax year 2018. While the final estimate is modified, we do find the simulation tables for tax year 2014 to be entirely reasonable and representative of the impacts on taxpayers by various income characterizations.

The impact can be described in terms of those positively impacted (pay less federal tax), those negatively impacted (pay more federal tax), and those that are not impacted. On a net basis, 72% of taxpayers will pay less federal tax, 13% will pay more, and 15% will not see their federal taxes changes. By and large, those that are not impacted were untaxable under either regime.

Table 3a summarizes the net impact by various federal adjusted gross income (AGI) classes. The AGI classes are pre-tax changes to illustrate the estimated impact relative to the prior law.

Table 3a. Federal Income Tax - Net Impact of Tax Changes			
Tax Year 2014			
Federal Adjusted Gross Income Class	Number of Taxpayers Not Impacted	Number of Taxpayers Impacted	Total Net Tax Impact
0 or less	17,783	1,463	28,309,007
0 to 25,000	429,450	499,659	(82,793,869)
25,000 to 50,000	11,412	611,249	(258,435,035)
50,000 to 75,000	2,237	396,739	(283,962,775)
75,000 to 100,000	900	275,162	(307,195,859)
100,000 to 150,000	600	315,389	(474,889,843)
150,000 to 250,000	200	210,033	(495,464,139)
250,000 to 500,000	61	72,547	(682,793,723)
500,000 to 1,000,000	26	17,198	(160,713,876)
Greater than $1M	28	7,756	(35,995,173)
Total	**462,697**	**2,407,195**	**(2,753,935,285)**

There are 2.031 million taxpayers expected to benefit by a total of $3.54 billion, or $1,741 per taxpayer. As a share of income, the tax cut ranges between 1.6% and 3.3%, with an average of 2.0%. Table 3b tabulates those that benefit.

Table 3b. Federal Income Tax - Taxpayers Positively Impacted By Tax Changes						
Tax Year 2014						
Federal Adjusted Gross Income Class	Number of Taxpayers	Share of Taxpayers by Class	Average AGI for Group	Total Tax Reduction	Average Tax Reduction	Average Tax Impact Share of Average AGI
0 or less	1,193	6%	#N/A	(4,333,428)	(3,632)	#N/A
0 to 25,000	448,319	48%	15,944	(120,265,588)	(268)	-1.7%
25,000 to 50,000	487,775	78%	36,544	(352,189,414)	(722)	-2.0%
50,000 to 75,000	320,468	80%	61,621	(360,359,713)	(1,124)	-1.8%
75,000 to 100,000	233,228	84%	86,896	(355,205,397)	(1,523)	-1.8%
100,000 to 150,000	267,877	85%	121,660	(537,709,798)	(2,007)	-1.6%
150,000 to 250,000	183,438	87%	188,408	(550,005,224)	(2,998)	-1.6%
250,000 to 500,000	68,553	94%	327,272	(735,649,893)	(10,731)	-3.3%
500,000 to 1,000,000	14,641	85%	663,304	(230,490,851)	(15,743)	-2.4%
Greater than $1M	5,809	75%	2,528,429	(289,648,907)	(49,862)	-2.0%
Total	**2,031,301**	**71%**	**87,939**	**(3,535,858,213)**	**(1,741)**	**-2.0%**

Notes:
(1) Average AGI and average impact for those with negative AGI are generally distortive and meaningless. In general, for those with negative AGI that get a tax reduction, they benefit from the elimination of the alternative minimum tax (AMT).

There are approximately 376,000 taxpayers expected to be negatively impacted by a total of $782 million, or $2,080 per taxpayer. As a share of income, the tax increase ranges between 1.1% and 4.6%, with an average of 2.3%. Table 3c below tabulates those that will see an increase in federal taxes.

Table 3c. Federal Income Tax - Taxpayers Negatively Impacted By Tax Changes
Tax Year 2014

Federal Adjusted Gross Income Class	Number of Taxpayers	Share of Taxpayers by Class	Average AGI for Group	Total Tax Increase	Average Tax Increase	Average Tax Impact Share of Average AGI
0 or less	270	1%	#N/A	32,642,435	120,898	#N/A
0 to 25,000	51,340	6%	15,836	37,471,719	730	4.6%
25,000 to 50,000	123,474	20%	36,861	93,754,379	759	2.1%
50,000 to 75,000	76,271	19%	61,687	76,396,937	1,002	1.6%
75,000 to 100,000	41,934	15%	86,298	48,009,538	1,145	1.3%
100,000 to 150,000	47,512	15%	121,957	62,819,955	1,322	1.1%
150,000 to 250,000	26,595	13%	183,163	54,541,085	2,051	1.1%
250,000 to 500,000	3,994	6%	344,599	52,856,170	13,234	3.8%
500,000 to 1,000,000	2,557	15%	707,643	69,776,976	27,289	3.9%
Greater than $1M	1,947	25%	3,260,343	253,653,734	130,279	4.0%
Total	**375,894**	**13%**	**89,641**	**781,922,928**	**2,080**	**2.3%**

Notes:
(1) Average AGI and average impact for those with negative AGI are generally distortive and meaningless. In general, for those with negative AGI that get a tax increase, they are negatively impacted from the limitation on excessive business losses.

Discussion of Certain Impactful Provisions on Federal Tax

The following broad-based changes made to federal tax law by the TCJA are the principle drivers of the major shift in federal tax owed by Maryland taxpayers. Each of the provisions discussed below accounts for a significant impact when taken in isolation. However, the interaction of the provisions must be accounted for to determine the true impact of the bill. This interaction is especially important with regard to several of the most significant changes to the law: (1) the increase in the standard deduction; (2) the general reduction to itemized deductions; (3) the loss of exemptions; and (4) the increase and expansion of the child tax credit (CTC). Some of the provisions have effects that will reinforce each other, while some have effects that will counter each other.

Repeal of Personal Exemptions

The personal exemptions serve to reduce a taxpayer's adjusted gross income (AGI) to their federal taxable income. This reduction is part of the calculation of the amount of income on which federal tax is owed. If the exemptions cover the taxpayer's AGI, that taxpayer owes no federal taxes.

Under prior law, a personal exemption was generally allowed for each member of the taxpayer's family. Each personal exemption reduced a taxpayer's taxable income by $4,050. Unlike the State's personal exemptions, the federal exemption amounts were indexed for inflation. Personal exemptions included phase-out limitations: for taxpayers filing as married-filing-jointly, the phase-out began at $313,800; for those filing as head-of-household, it began at $287,650; for those filing as married-filing-separately, $156,900; and for all others, $261,500. Those too were indexed for inflation.

Under the TCJA, all deductions for personal exemptions are suspended through tax year 2025, at which point they will be reinstated. It is important to note that the exemption language remains in federal statute; the value of the exemptions is simply set to zero for the applicable years. The 2014 impact is shown below.

Table 4a. Impact of Repeal of Personal Exemptions Tax Year 2014				
Federal Adjusted Gross Income Class		Number of Taxpayers	Total Exemption Dollars Lost	Average Amount
0 to 25,000		556,500	2,576,576,370	4,630
25,000 to 50,000		614,458	4,484,195,572	7,298
50,000 to 75,000		396,950	3,075,882,036	7,749
75,000 to 100,000		275,311	2,433,730,014	8,840
100,000 to 150,000		315,481	3,252,605,488	10,310
150,000 to 250,000		209,749	2,430,936,452	11,590
250,000 to 500,000		64,299	635,317,491	9,881
500,000 to 1,000,000		-	-	-
Greater than $1M		-	-	-
Total		**2,432,748**	**18,889,243,423**	**7,765**

Because of the phase-out limitations under the previous law, the impact of the repeal is limited to the taxpayers that fall below the AGI at which the exemption is completely phased out – generally, this means taxpayers with AGI below $385,000. The impact of this repeal lands squarely on those taxpayers who would have taken large numbers of personal exemptions under the prior law; that is, taxpayers with many family members, particularly those with qualifying dependents older than 17 years old.

The doubled Child Tax Credit ("CTC"), discussed in this section on page 11, will help offset the increase in taxable income resulting from the repeal of the personal exemptions. The roughly $4,000 personal exemption that was available for each child under the previous law is generally equal to the $1,000 increase in the new CTC.

In all, an additional $18.9 billion in AGI will now be federally taxable as a result of the repeal of the deduction for personal exemptions.

Modifications to Deductions

As with the personal exemptions, the federal standard and itemized deductions serve to reduce a taxpayer's (AGI) to his or her federal taxable income. This reduction is part of the calculation of the amount of income on which federal tax is owed.

The TCJA almost doubles the previous amount of the standard deduction for each filing status. For taxpayers filing as single or as married-filing-separately, the standard deduction is increased from $6,350 to $12,000; for those filing as head-of-household, the deduction is increased from $9,350 to $18,000; and for those married-filing-jointly, it is increased from $12,700 to $24,000. These amounts take effect beginning with tax year 2018 and are in effect through tax year 2025. Assuming no federal tax law changes going forward, the amounts of the deduction will revert to inflation-adjusted tax year 2017 amounts for tax years 2026 and beyond.

Under prior law, individuals were permitted a deduction for, among other things, State and local taxes (SALT) paid, regardless of whether those taxes were incurred in a trade or business. Under the TCJA, deductions for SALT have been generally capped at $10,000. The most common taxes deducted were taxes paid on property and income. A summary of the taxpayers impacted is illustrated in Table 4b below, with the dollar amounts detailed representing the lost deduction amounts.

Table 4b. Impact of Repeal of SALT Deductions				
Tax Year 2014				
Federal Adjusted Gross Income Class		Number of Impacted Taxpayers	Total Deduction Amount Exceeding Cap	Average Deduction Amount Exceeding Cap
0 or less		1,048	25,774,012	24,594
0 to 25,000		1,804	22,563,756	12,508
25,000 to 50,000		4,758	22,862,465	4,805
50,000 to 75,000		15,823	53,578,259	3,386
75,000 to 100,000		49,620	119,153,345	2,401
100,000 to 150,000		197,299	636,646,006	3,227
150,000 to 250,000		191,188	1,622,756,081	8,488
250,000 to 500,000		69,075	1,540,972,621	22,309
500,000 to 1,000,000		16,651	884,306,449	53,108
Greater than $1M		7,480	1,617,292,035	216,216
Total		**554,746**	**6,545,905,030**	**11,800**

Additionally, although each smaller in singular impact relative to SALT, several other aspects of itemized deductions were either eliminated or reduced in value, some with significant impacts. As in the case of the personal exemptions, these changes take effect for tax year 2018 and expire after tax year 2025, at which point the rules regarding itemized deductions revert to those in effect in tax year 2017.

The combination of the changes to itemized deductions will shift many Maryland taxpayers into the federal standard deduction, as itemizing deductions may no longer be financially beneficial to a taxpayer. While a minority of these taxpayers will benefit from this shift, most will be forced to claim a lower deduction. Thus, the limitation and various repeals will likely result in a rise in federal taxable income for these taxpayers. Meanwhile, those taxpayers that were already receiving the standard deduction will see a generous increase in untaxable income at the federal level. Table 4c below summarizes the impacts for Maryland's filing population, excluding those with income below zero.

Table 4c. Impact of Changes to Standard and Itemized Deductions
Tax Year 2014

Federal Adjusted Gross Income Class	Number of MD Taxpayers	Negatively Impacted: Taxpayers	Negatively Impacted: Total Deductions Lost	Positively Impacted: Taxpayers	Positively Impacted: Total Deductions Gained
0 to 25,000	929,109	9,124	28,638,068	602,186	2,904,501,235
25,000 to 50,000	622,661	51,079	249,478,755	546,455	3,660,058,024
50,000 to 75,000	398,976	60,801	320,062,934	289,066	1,903,817,322
75,000 to 100,000	276,062	66,703	324,509,146	169,834	1,156,174,911
100,000 to 150,000	315,989	148,228	768,031,062	150,730	925,879,213
150,000 to 250,000	210,233	165,787	1,530,735,035	42,571	237,451,869
250,000 to 500,000	72,608	67,744	1,441,890,023	4,713	34,127,220
500,000 to 1,000,000	17,224	16,276	747,488,047	945	8,145,415
Greater than $1M	7,784	7,161	1,338,515,346	622	13,097,021
Total	**2,850,646**	**592,903**	**6,749,348,417**	**1,807,122**	**10,843,252,230**

Notes:
(1) Taxpayers in the income class below $0 represent an insignificant share of those taxpayers affected; in addition, their calculation of AGI is so extraordinary as to be misrepresentative of the average taxpayer. Thus, they have been excluded from most tables.
(2) AGI means taxpayer AGI prior to any changes in the tax code.

Child Tax Credit (CTC)

Under prior law, the CTC allowed an individual to claim a credit in the amount of $1,000 for each qualifying child under age 17. The phase-out of the credit was dependent upon filing status: for taxpayers filing as single or head-of-household, the phase-out began at an AGI of $75,000; for those filing as married-filing-separately, the phase-out began at $55,000 and for those married-filing-jointly, and the phase-out began at $110,000. If the credit exceeded the taxpayer's federal tax liability, a refundable CTC capped at $1,000 was made available.

Under the TCJA, beginning in Tax Year 2018, the amount of the credit doubles to $2,000 per qualifying child, and a non-refundable credit is extended to qualifying dependents in an amount of $500. The phase-out limits have also been significantly increased. For those married-filing-jointly, the phase-out now begins at an AGI of $400,000; and for all other filing statuses, it begins at $200,000. The cap on the refundable portion of the credit is raised to $1,400 per qualifying child. The TCJA also requires that a Social Security number be provided for each qualifying child for whom the credit is claimed. If the child does not have a Social Security number, the child may still qualify for the non-refundable $500 credit.

The enhanced CTC will benefit all Maryland taxpayers with qualifying children and/or dependents. *"Negatively Impacted,"* as defined in Tables 5a and 5b below, are the result of the effects of other provisions, with the enhanced CTC being more generous in both amount and eligibility requirements. The changes in the phase-out limits will have significant impacts on Maryland's middle class taxpayers. In particular, those living in central Maryland, where the cost-of-living is significantly higher than in other parts of the State and country, will see substantial benefits from the enhanced CTC as the AGI of middle class families settled in the suburbs of the Washington metro area can extend well beyond $150,000.

Previously, credits were phased out completely around $130,000 of AGI. Under the TCJA, the credit only begins to phase-out at $400,000 of AGI and extends up to $440,000 of AGI. This will result in approximately 275,000 newly-eligible taxpayers and a federal tax reduction of almost $900 million for these taxpayers, or approximately $3,250 per newly-eligible family. Table 5a shows the impact of the changes to the non-refundable CTC.

Table 5a. Impact of Changes to Non-Refundable Child Tax Credit							
Tax Year 2014							
Federal Adjusted Gross Income Class		Negatively Impacted			Positively Impacted		
		Taxpayers	Credit Reduction		Taxpayers	Credit Increase	Average Increase
0 to 25,000		19,044	3,314,911		37,764	11,120,400	294
25,000 to 50,000		19,879	4,454,437		142,793	103,469,730	725
50,000 to 75,000		1,621	1,245,643		92,742	126,855,100	1,368
75,000 to 100,000		1,445	1,473,683		85,004	167,307,611	1,968
100,000 to 150,000		1,058	1,115,471		132,698	370,932,035	2,795
150,000 to 250,000		114	122,520		108,569	396,618,682	3,653
250,000 to 500,000		47	65,275		33,562	125,223,597	3,731
500,000 to 1,000,000		24	23,439		-	-	-
Greater than $1M		9	10,776		-	-	-
Total		**43,241**	**11,826,153**		**633,132**	**1,301,527,155**	**2,056**

Table 5b shows the impact of the changes to the refundable CTC.

5b. Impact of Changes to Refundable Child Tax Credit							
Tax Year 2014							
Federal Adjusted Gross Income Class		Negatively Impacted			Positively Impacted		
		Taxpayers	Credit Reduction		Taxpayers	Credit Increase	Average Increase
0 to 25,000		16,784	21,485,513		185,742	61,809,626	333
25,000 to 50,000		18,802	24,659,190		123,296	112,793,841	915
50,000 to 75,000		5,576	5,532,362		24,782	27,338,861	1,103
75,000 to 100,000		1,150	1,139,010		5,383	6,603,812	1,227
100,000 to 150,000		282	304,133		1,751	2,745,134	1,568
150,000 to 250,000		59	83,238		422	808,652	1,916
250,000 to 500,000		30	51,297		201	464,470	2,311
500,000 to 1,000,000		20	33,990		-	-	-
Greater than $1M		14	18,730		-	-	-
Total		**42,717**	**53,307,462**		**341,577**	**212,564,396**	**622**

The approximately 43,000 taxpayers "negatively impacted" in the non-refundable table would generally have zero tax liability under the TCJA, and these taxpayers would "lose" the non-refundable credit and shift to the refundable CTC. Similarly, the 43,000 "negatively impacted" in the refundable table that will be newly-ineligible for the refundable credit would no longer have the entirety of their tax liability wiped out by the non-refundable CTC, as they likely will have moved up in tax brackets as a result of the other provisions.

As a result of TCJA's changes to the CTC, approximately $1.3 billion in additional nonrefundable CTC and $213 million in additional refundable CTC will be awarded to Maryland taxpayers. Following the expiration of this provision at the close of tax year 2025, the rules regarding the CTC revert to those in effect in tax year 2017.

Federal Tax Brackets and Rates

Under the TCJA, the progressive tax rate regime remains. Tax rates will generally be lower for all income brackets. The exceptions are illustrated in Table 6a below and Table 6b on the next page, which show each difference in the TCJA versus the prior law. As was the case in prior law, there are seven brackets under the TCJA. There are several ranges of income where the marginal change is substantial. It is worth noting that the reduction in the top bracket generates the largest and broadest based gain for those taxpayers.

6a. Married Joint Rates and Brackets								
Prior Law				Tax Cuts and Jobs Act				TCJA vs Prior Law
Begin	End	Rate		Begin	End	Rate		
$0	$18,650	10.0%		$0	$18,650	10.0%		Same
$18,650	$19,050	15.0%		$18,650	$19,050	10.0%		Decrease
$19,050	$75,900	15.0%		$19,050	$75,900	12.0%		Decrease
$75,900	$77,400	25.0%		$75,900	$77,400	12.0%		Decrease
$77,400	$153,100	25.0%		$77,400	$153,100	22.0%		Decrease
$153,100	$165,000	28.0%		$153,100	$165,000	22.0%		Decrease
$165,000	$233,350	28.0%		$165,000	$233,350	24.0%		Decrease
$233,350	$315,000	33.0%		$233,350	$315,000	24.0%		Decrease
$315,000	$400,000	33.0%		$315,000	$400,000	32.0%		Decrease
$400,000	$416,700	33.0%		$400,000	$416,700	35.0%		Increase
$416,700	$470,700	35.0%		$416,700	$470,700	35.0%		Same
$470,700	$600,000	39.6%		$470,700	$600,000	35.0%		Decrease
Greater than $600,000		39.6%		Greater than $600,000		37.0%		Decrease

6b. Single Rates and Brackets						
Prior Law			Tax Cuts and Jobs Act			TCJA vs Prior Law
Begin	End	Rate	Begin	End	Rate	
$0	$9,325	10.0%	$0	$9,325	10.0%	Same
$9,325	$9,525	15.0%	$9,325	$9,525	10.0%	Decrease
$9,525	$37,950	15.0%	$9,525	$37,950	12.0%	Decrease
$37,950	$38,700	25.0%	$37,950	$38,700	12.0%	Decrease
$38,700	$82,500	25.0%	$38,700	$82,500	22.0%	Decrease
$82,500	$91,900	25.0%	$82,500	$91,900	24.0%	Decrease
$91,900	$157,500	28.0%	$91,900	$157,500	24.0%	Decrease
$157,500	$191,650	28.0%	$157,500	$191,650	32.0%	Increase
$191,650	$200,000	33.0%	$191,650	$200,000	32.0%	Decrease
$200,000	$416,700	33.0%	$200,000	$416,700	35.0%	Increase
$416,700	$418,400	35.0%	$416,700	$418,400	35.0%	Same
$418,400	$500,000	39.6%	$418,400	$500,000	35.0%	Decrease
Greater than $500,000		39.6%	Greater than $500,000		37.0%	Decrease

Deduction for Qualified Business Income

Under the TCJA, an individual taxpayer may, in general, deduct 20% of qualified business income (QBI) from a partnership, S corporation, or sole proprietorship, as well as 20% of other certain business-related income. QBI is allowed to be taken as a loss and carried forward, but only against other QBI. The manner in which these losses will interact with other losses is uncertain; this provision may create extraordinary complexity.

There is a limitation on this deduction for service-related companies. For these companies, the deduction for any business income above the $315,000 threshold (married-filing-jointly) or $157,000 threshold (all other filing statuses) is gradually phased out. At the $415,000 limit (married-filing-jointly) or $207,000 limit (all other filing statuses), the deduction is completely phased out; that is, the business income from these service-related companies above the phase-out limits does not qualify for the QBI deduction.

The Office of the Comptroller has no reliable information regarding the amount of Maryland business income that is service-related. To simulate the impact of this deduction, we took the total amount of Maryland business income and randomly assigned it in a 70% - 30% service - nonservice business income ratio.

The assignment is based on classifications of businesses in Maryland according to various federal reporting sources; however, there are certainly limitations to the existing industry classification reporting and its relation to this tax provision. All business income below the phase-out limits received the appropriate deduction.

Nonservice business income above the phase-out limits continued to receive the deduction; service income above the phase-out limits received no deduction. Table 7 displays the results.

Table 7. Impact of Deduction For Qualified Business Income Tax Year 2014				
Federal Adjusted Gross Income Class		Number of Taxpayers	Total Deductions Gained	Average Amount
0 to 25,000		3,237	2,459,248	760
25,000 to 50,000		10,534	18,919,874	1,796
50,000 to 75,000		10,805	31,969,307	2,959
75,000 to 100,000		10,593	39,520,555	3,731
100,000 to 150,000		17,350	86,730,577	4,999
150,000 to 250,000		20,300	164,473,311	8,102
250,000 to 500,000		15,218	224,345,345	14,742
500,000 to 1,000,000		3,105	81,936,586	26,389
Greater than $1M		2,109	253,339,216	120,123
Total		**93,251**	**903,694,020**	**9,691**

Limitation on Business Losses for Individuals (Excess Business Losses)

Under prior law, a taxpayer that is an active participant in a non C-Corp business could utilize all of a current year's business losses to offset other types of income and then turn any additional excess loss amounts into a net operating loss for use in other tax years (carry-back or carry-forward). The effect was to render that taxpayer as untaxable for the current year and generate refunds for prior years and/or reduced tax in future years.

Under the TCJA, excess business losses above the specified limitations ($500,000 for married-filing-jointly, $250,000 for single) will no longer be allowed in a current taxable year, except in the case of corporations. However, these excess business losses will be allowed to be carried forward and treated as part of the taxpayer's net operating loss (NOL) carryforward.

This provision will have the effect of raising the federal taxable income of those taxpayers with excess business losses above the specified limitations. Under the prior law, these taxpayers could have used the full amount of their business loss to reduce their federal taxable income to zero. Under the TCJA, these taxpayers will be forced to spread the amount of losses above the limit over multiple years. For federal tax revenue purposes, assuming average business losses in the aggregate, this provision will serve to immediately increase federal taxable income. In theory, the provision would result in a net-zero effect, as excess business losses would serve to reduce future taxable income. Table 8, on the next page, shows the first-year, one-year impact.

Table 8. Impact of Deduction For Excess Business Losses

Tax Year 2014

Federal Adjusted Gross Income Class	Number of Taxpayers	Total Deductions Lost	Average Amount
0 or less	369	395,385,252	1,071,505
0 to 25,000	21	16,417,613	781,791
25,000 to 50,000	29	22,680,560	782,088
50,000 to 75,000	40	18,008,348	450,209
75,000 to 100,000	32	9,780,027	305,626
100,000 to 150,000	18	9,947,220	552,623
150,000 to 250,000	28	20,657,532	737,769
250,000 to 500,000	61	59,122,368	969,219
500,000 to 1,000,000	58	81,076,736	1,397,875
Greater than $1M	124	332,332,733	2,680,103
Total	**780**	**965,408,389**	**1,237,703**

State Personal Income Tax Impacts

The following tables and sections detail the TCJA's flow-through to Maryland's income taxes. Throughout, we seek to identify the income and tax impacts of singular provisions or items. This is done to support policy analysis; however, it must be stressed that most of the provisions work together and one change can have impacts to other items. Any policy package that seeks to decouple the State from one or several of the federal changes should be run through our simulation to determine the most definitive impacts.

Table 9 on page 17 summarizes the impact from our simulation of actual taxpayer data as well as items for significant provisions that we had to estimate outside of our tax database. We simulate the tax base with tax year 2014 records (most recent completed database) and extrapolate forward. Our baseline simulation assumes that all taxpayers prioritize the reduction of their federal tax.

However, approximately 12% of all taxpayers (333,552 taxpayers) would pay relatively more combined tax (federal plus State and local) if they only prioritized their federal tax. This inter-play is dependent on their decision of whether or not to itemize at the federal level. They may pay a little more at the federal level (may still benefit overall at federal level) but will save more in State and local taxes than they lost in federal taxes. The line item in the table below titled "*Adj for State Deduction Favor*" reflects our assumption that 80% of those taxpayers would make the correct decision for their bottom lines.

Table 9. State & Local Personal Income Tax Revenue Impact on Maryland Residents - Bringing It All Together - By Tax Year							
Dollars in Thousands							
Item		Tax Year 2014	Tax Year 2018	Tax Year 2019	Tax Year 2020	Tax Year 2021	Tax Year 2022
State Income Tax - Simulation		415,945	464,828	480,251	496,186	512,649	529,659
State Income Tax - Adj for State Deduction Favor		(178,090)	(199,020)	(205,623)	(212,446)	(219,495)	(226,777)
State Income Tax - $750k Mortgage Indebt Cap			915	1,739	2,481	3,148	3,749
State Income Tax - HELOC Repeal			11,374	11,374	11,374	11,374	11,374
State Income Tax - Lost NOL Carryback			12,530	12,530	12,530	12,530	12,530
State Income Tax - Expanded 529 Plan Use			(14,069)	(20,322)	(20,322)	(20,322)	(20,322)
State Income Tax - SubTotal			**276,558**	**279,948**	**289,802**	**299,884**	**310,212**
Local Income Tax - Simulation		242,904	271,451	280,457	289,763	299,377	309,311
Local Income Tax - Adj for Local Deduction Favor		(104,001)	(116,224)	(120,080)	(124,064)	(128,181)	(132,434)
Local Income Tax - $750k Mortgage Indebt Cap			487	925	1,320	1,675	1,994
Local Income Tax - HELOC Repeal			6,050	6,050	6,050	6,050	6,050
Local Income Tax - Lost NOL Carryback			7,470	7,470	7,470	7,470	7,470
Local Income Tax - Expanded 529 Plan Use			(7,485)	(10,811)	(10,811)	(10,811)	(10,811)
Local Income Tax - SubTotal			**161,750**	**164,012**	**169,728**	**175,581**	**181,581**
Total State & Local Income Tax Impact			**438,308**	**443,961**	**459,530**	**475,465**	**491,792**

Notes:
(1) Not all items could be simulated with taxpayer data, the other items represent estimates developed with separate data sources
(2) All estimates have documentation in other areas of the paper
(3) The "Adj for State Deduction Favor" is an adjustment after the simulation to account for taxpayers that would pay more in State and local taxes than if they would gain in decreased federal taxes by shifting to the standard deductions. We assume that 80% of those that would benefit under this scenario would exercise that option. There is further description later in the paper.
(4) This estimate excludes any impact from State and local exemptions; it is our opinion that they would be allowed, though clarifying language would be beneficial.

Table 9a is a break down by impact for Maryland residents, assuming all prioritize their federal income tax. Under this scenario, the State would collect $659 million more in combined state and local taxes, $416 million more for the general fund, and $243 million more in local income taxes.

Table 9a. Maryland Resident - State & Local Tax Impact - Assumes 100% Federal Tax Priority											
Tax Year 2014											
		No Change		Pay More State & Local Tax				Pay Less State & Local Tax			All
Federal Adjusted Gross Income Class		Number of Taxpayers		Number of Taxpayers	Total Change in S&L Tax	Average Change in S&L Tax		Number of Taxpayers	Total Change in S&L Tax	Average Change in S&L Tax	Net Change in S&L Tax
0 or less		18,955		277	9,484,903	34,242		14	(4,428)	(316)	9,480,475
0 to 25,000		733,393		184,385	51,082,217	277		11,331	(913,979)	(81)	50,168,237
25,000 to 50,000		448,362		149,505	92,558,650	619		24,794	(3,150,400)	(127)	89,408,250
50,000 to 75,000		224,013		153,233	98,305,399	642		21,730	(4,402,514)	(203)	93,902,885
75,000 to 100,000		135,756		125,322	83,993,144	670		14,984	(4,348,859)	(290)	79,644,285
100,000 to 150,000		126,917		174,947	122,680,822	701		14,125	(5,524,294)	(391)	117,156,528
150,000 to 250,000		79,572		121,491	96,047,773	791		9,170	(5,482,748)	(598)	90,565,025
250,000 to 500,000		15,830		43,356	51,524,374	1,188		13,422	(4,130,296)	(308)	47,394,078
500,000 to 1,000,000		414		11,093	27,028,736	2,437		5,717	(3,128,571)	(547)	23,900,165
Greater than $1M		182		4,400	68,315,307	15,526		3,202	(11,089,480)	(3,463)	57,225,827
Total		**1,783,394**		**968,009**	**701,021,324**	**724**		**118,489**	**(42,175,570)**	**(356)**	**658,845,754**

Table 9b is a breakdown by impact for Maryland residents, assuming all 333,552 prioritize their combined federal and state and local income taxes. Approximately 219,403 move into the "No Change" category with the others paying more or less for another item. Under this scenario, the State would collect $300 million more in combined State and local taxes, $193 million more for the general fund, and $107 million more in local income taxes.

Table 9b. Maryland Resident - State & Local Tax Impact - Assumes 100% Favor Impact of Fed&State&Local Combined								
Tax Year 2014								
	No Change	Pay More State & Local Tax			Pay Less State & Local Tax			All
Federal Adjusted Gross Income Class	Number of Taxpayers	Number of Taxpayers	Total Change in S&L Tax	Average Change in S&L Tax	Number of Taxpayers	Total Change in S&L Tax	Average Change in S&L Tax	Net Change in S&L Tax
0 or less	18,955	277	9,484,903	34,242	14	(4,428)	(316)	9,480,475
0 to 25,000	737,975	179,803	46,043,215	256	11,331	(913,979)	(81)	45,129,236
25,000 to 50,000	470,657	127,210	62,463,259	491	24,794	(3,150,400)	(127)	59,312,859
50,000 to 75,000	258,683	118,563	47,832,019	403	21,730	(4,402,514)	(203)	43,429,506
75,000 to 100,000	174,528	86,550	23,381,690	270	14,984	(4,348,859)	(290)	19,032,830
100,000 to 150,000	193,213	108,651	11,218,248	103	14,125	(5,524,294)	(391)	5,693,954
150,000 to 250,000	122,043	79,020	20,663,489	261	9,170	(5,482,748)	(598)	15,180,741
250,000 to 500,000	25,086	34,100	31,003,633	909	13,422	(4,130,296)	(308)	26,873,337
500,000 to 1,000,000	1,366	10,141	22,931,977	2,261	5,717	(3,128,571)	(547)	19,803,406
Greater than $1M	291	4,291	67,531,068	15,738	3,202	(11,089,480)	(3,463)	56,441,588
Total	**2,002,797**	**748,606**	**342,553,502**	**458**	**118,489**	**(42,175,570)**	**(356)**	**300,377,932**

Exemptions

The most significant flow-through revenue impact could come from the loss of the federal exemption. Maryland is coupled to federal statute. The uncertainty of the manner in which the existing State coupling language will interact with the TCJA leaves the status of the State exemption ambiguous. Our estimates assumed the State's exemptions remain intact. For such a significant tax impact, it would be beneficial to ensure an explicit interpretation of the State's policy. The State's exemption for fiduciaries is explicit and therefore not impacted by the TCJA.

Maryland Tax General Section 10-211 reads:

> **(a) In general.** -- Except as provided in subsection (b) of this section, whether or not a federal return is filed, to determine Maryland taxable income, an individual other than a fiduciary may deduct as an exemption:
>
> **(1)** $ 3,200 for each exemption that the individual may deduct in the taxable year to determine federal taxable income under § 151 of the Internal Revenue Code;

There are two schools of thought surrounding the federal exemption as enacted in TCJA. First, some believe that the TCJA does not eliminate the federal exemption and instead sets the amount to zero until tax year 2026. This interpretation of TCJA would not conflict with current Maryland statute, which states "the individual may deduct in the taxable year to determine federal taxable income." The second interpretation is that no exemption exists under TCJA because mathematically, while a taxpayer can deduct zero from any number, there would be no actual deduction. This would also impact Maryland's "special" exemptions for filers or dependents that are over the age of 64 or blind.

These conflicting interpretations underscore the need for legislative clarification at the state level. The ambiguous nature surrounding the federal deduction has vast implication on Marylanders. For example, in our simulation, the federal exemption impacted 90% of Maryland resident tax returns and saved taxpayers approximately $490 million in State taxes and $310 million in local taxes. Table 10a below shows exemptions claimed on Maryland resident tax returns from tax year 2014:

Table 10a. Impact - State and Local Personal Exemptions Tax Year 2014										
	Regular Exemptions					Special Exemptions				
Federal Adjusted Gross Income Class	Number of Taxpayers	Total Exempted Income	Average Exempted Amount	Total State & Local Tax Savings	Average State & Local Tax Savings [1]	Number of Taxpayers	Total Exempted Income	Average Exempted Amount	Total State & Local Tax Savings	Average State & Local Tax Savings [1]
0 or less	16,880	98,978,600	5,864	76,256	465	5,408	7,258,000	1,342	2,453	91
0 to 50,000	1,395,962	7,735,079,864	5,541	230,884,006	301	194,055	240,040,669	1,237	6,336,819	79
50,000 to 100,000	674,394	4,299,154,341	6,375	316,027,707	479	130,398	174,200,939	1,336	11,449,228	96
100,000 to 250,000	442,668	2,882,013,650	6,511	218,604,813	496	93,409	141,202,637	1,512	10,566,325	115
250,000 to 500,000	-	-	-	-	-	6,161	10,035,311	1,629	769,167	125
500,000 to 1,000,000	-	-	-	-	-	1,703	2,674,624	1,571	202,938	119
Greater than $1M	-	-	-	-	-	1,056	1,633,972	1,547	120,185	114
Total	**2,529,904**	**15,015,226,455**	**5,935**	**765,592,783**	**410**	**432,190**	**577,046,151**	**1,335**	**29,447,114**	**98**

Notes:
(1) For many, particularly in the lower brackets, lost exemption amounts would be offset by currently unused earned income credits. After taking unused credits into account, only 1.9 million taxpayers are actually impacted by lost regular State exemptions. Almost 300,000 are impacted by the special exemptions. The average dollar amounts in the table are amended to only account for those that are impacted.

Table 10b shows the State revenue impact by fiscal year if the State's exemptions are eliminated:

Table 10b. Revenue Impact - Lost Personal Exemptions Dollars in Thousands						
Item	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023
Regular State Personal Exemptions	-	699,025	468,736	471,080	473,436	475,803
Special State Personal Exemptions	-	30,479	20,747	21,121	21,501	21,888
Subtotal - State Fiscal Impact	-	729,504	489,483	492,201	494,937	497,691
Regular Local Personal Exemptions	-	469,495	314,823	316,397	317,979	319,569
Special Local Personal Exemptions	-	20,607	14,027	14,280	14,537	14,798
Subtotal - Local Fiscal Impact	-	490,102	328,850	330,677	332,516	334,367
Total - Combined Impact for Taxpayer	-	1,219,606	818,333	822,878	827,453	832,058

Notes:
(1) Majority of exemption dollars are claimed through withholding and are therefore dependent on the State's withholding tables. The withholding tables for tax year 2018 have not been changed; any changes are pending clarification from the 2018 Legislative Session. This impacts timing, and shifts the cost of lost exemptions for tax year 2018 into early 2019 with the filing of tax returns.

Itemized Deductions (Shift to State Standard Deduction)

Prior to the TCJA, the federal standard deduction was $6,350 for taxpayers filing as single and $12,700 for those filing as married-filing jointly. Unlike the Maryland standard deduction, the federal standard deduction is indexed to inflation so as to not annually reduce its value and, in effect, raise taxes. There is also an additional standard deduction permitted for an individual that is blind or elderly.

The TJCA increases the federal standard deduction to $24,000 for married individuals filing a joint return, $18,000 for head-of-household filers, and $12,000 for all other individuals. Those amounts are indexed for inflation. The increased amounts expire after tax year 2025, at which point they will revert to tax year 2017 amounts.

Maryland statute is clear that a taxpayer may only itemize their deductions in Maryland if they did so at the federal level. Maryland Tax General Section 10-218 reads:

> **(a) In general.** -- Only an individual who itemizes deductions on the individual's federal income tax return may elect to itemize deductions on the individual's income tax return.
>
> **(b) Limitations.** -- An individual who elects to itemize deductions is allowed as a deduction the sum of the individual's federal itemized deductions:
>
> **(1)** limited and reduced as required under the Internal Revenue Code;
>
> **(2)** further reduced by any amount deducted under § 170 of the Internal Revenue Code for contributions of a preservation or conservation easement for which a credit is claimed under § 10-723 of this title; and
>
> **(3)** further reduced by the amount claimed as taxes on income paid to a state or political subdivision of a state, after subtracting a pro rata portion of the reduction to itemized deductions required under § 68 of the Internal Revenue Code.

As the federal standard deduction becomes more valuable and other provisions reduce or eliminate certain components of pre-existing itemized deductions, more Maryland taxpayers will take the federal standard deduction. This will force these taxpayers into the State's standard deduction which is not indexed and is capped at $4,000 for married individuals and $2,000 for individuals.

Table 11a, on the next page, illustrates the impact to Maryland taxpayers if they were to choose their deduction method solely based on their federal tax. In general, the only major provisions that might increase a Maryland deduction are the temporary increase in medical deductions and the removal of the limitation on overall deductions (Pease limitation).

Table 11a. Impact to Maryland Deductions -- All Changes -- Assumes Preferred Federal Tax Reduction
Tax Year 2014

	Taxpayers Positively Impacted					Taxpayers Negatively Impacted				
Federal Adjusted Gross Income Class	Number of Taxpayers	Total Deduction Impact	Average Deduction Change	Estimated Exclusive State Tax Impact	Estimated Exclusive Local Tax Impact	Number of Taxpayers	Total Deduction Impact	Average Deduction Change	Estimated Exclusive State Tax Impact	Estimated Exclusive Local Tax Impact
0 or less	308	2,204,873	7,159	(7,333)	(1,244)	176	(2,079,066)	(11,813)	6,915	1,173
0 to 25,000	77,567	35,542,193	458	(1,474,630)	(759,103)	109,125	(372,237,847)	(3,411)	15,443,983	7,950,181
25,000 to 50,000	44,497	51,366,029	1,154	(2,285,788)	(1,476,600)	174,333	(1,328,055,490)	(7,618)	59,098,469	38,177,113
50,000 to 75,000	30,486	49,441,279	1,622	(2,339,194)	(1,483,238)	156,226	(1,247,475,851)	(7,985)	59,021,298	37,424,276
75,000 to 100,000	21,616	43,417,327	2,009	(2,062,268)	(1,302,520)	126,665	(1,054,042,167)	(8,321)	50,065,661	31,621,265
100,000 to 150,000	19,356	55,593,140	2,872	(2,731,769)	(1,667,794)	173,939	(1,527,135,599)	(8,780)	75,041,290	45,814,068
150,000 to 250,000	11,273	53,780,746	4,771	(2,804,487)	(1,613,422)	115,325	(1,104,010,204)	(9,573)	57,570,469	33,120,306
250,000 to 500,000	17,268	44,116,717	2,555	(2,425,680)	(1,323,501)	40,589	(469,072,302)	(11,557)	25,791,117	14,072,169
500,000 to 1,000,000	6,239	36,691,514	5,881	(2,086,974)	(1,100,745)	10,596	(185,110,813)	(17,470)	10,528,904	5,553,324
Greater than $1M	3,585	154,396,369	43,067	(8,855,340)	(4,631,891)	4,001	(361,021,309)	(90,233)	20,706,229	10,830,639
Total	**232,195**	**526,550,188**	**2,268**	**(27,073,464)**	**(15,360,059)**	**910,975**	**(7,650,240,647)**	**(8,398)**	**373,274,335**	**224,564,515**

Notes: (1) 1.7 million Marylanders have no change in their deduction

It is important to note here that we have assumed that, with regard to the $10,000 cap on State and local taxes, taxpayers will prioritize their real estate taxes because they already do not receive a benefit on the Maryland return for income taxes paid.

Assuming all taxpayers prioritize reducing federal tax liability, as opposed to limiting State-local liability or combined federal-State-local liability, 700,198 taxpayers would be forced from Maryland's itemized deduction into Maryland's standard deduction. The shifting between deduction types is sure to create a dynamic impact for charitable contributions. It is worth noting that of those shifting, 574,415 made charitable contributions totaling $1.5 billion.

Table 11b below summarizes that impact:

Table 11b. Impact to Maryland Deductions -- Shifting -- Assumes Preferred Federal Tax Reduction								
Tax Year 2014								
	Taxpayers Switching From Itemized to Standard					Deducting Charitable Contribution		
Federal Adjusted Gross Income Class	Number of Taxpayers	Total Deduction Impact	Average Deduction Change	Estimated Exclusive State Tax Impact	Estimated Exclusive Local Tax Impact	Number of Taxpayers	Total Deducted Amount	Average Deducted Amount
0 or less	2,088	(1,241,129)	(594)	4,128	700	154	487,512	3,166
0 to 25,000	62,550	(365,658,970)	(5,846)	15,171,028	7,809,671	37,249	77,372,782	2,077
25,000 to 50,000	146,798	(1,261,385,492)	(8,593)	56,131,654	36,260,576	113,881	302,570,221	2,657
50,000 to 75,000	130,334	(1,112,275,958)	(8,534)	52,624,643	33,368,279	107,369	291,222,044	2,712
75,000 to 100,000	102,877	(914,084,921)	(8,885)	43,417,870	27,422,548	86,937	227,106,900	2,612
100,000 to 150,000	139,462	(1,291,046,110)	(9,257)	63,440,185	38,731,383	122,139	298,293,751	2,442
150,000 to 250,000	86,820	(879,381,630)	(10,129)	45,856,834	26,381,449	79,273	213,304,563	2,691
250,000 to 500,000	24,264	(311,717,591)	(12,847)	17,139,245	9,351,528	22,713	71,745,072	3,159
500,000 to 1,000,000	4,047	(74,731,940)	(18,466)	4,250,672	2,241,958	3,807	13,055,854	3,429
Greater than $1M	958	(56,906,590)	(59,401)	3,263,854	1,707,198	893	3,716,463	4,162
Total	**700,198**	**(6,268,430,332)**	**(8,952.37)**	**301,300,114**	**183,275,289**	**574,415**	**1,498,875,162**	**2,609**

However, we cannot assume that all taxpayers will prioritize their federal tax. Table 11c, on the next page, is a summary of the impact if taxpayers were to minimize the combined federal-State-local liability but pay more in federal tax. If all taxpayers were to follow that strategy, they would pay an estimated $143 million more in federal tax in order to pay $358 million less in State and local income taxes ($223 million less in State and $135 million less in local). The amounts in table 11c would offset amounts in table 11b. While not all will weigh their net impact, some surely will.

Table 11c. Taxpayers That May Elect to Pay More Federal Taxes to Minimize All Taxes					
Tax Year 2014					
Federal Adjusted Gross Income Class	Number of Taxpayers	Total Deduction Impact	Average Deduction Change	Estimated Exclusive State Tax Impact	Estimated Exclusive Local Tax Impact
0 or less	10	130,656	13,066	-	-
0 to 25,000	9,953	80,178,412	8,056	(3,326,567)	(1,712,434)
25,000 to 50,000	42,936	410,877,511	9,570	(18,284,049)	(11,811,342)
50,000 to 75,000	58,557	652,848,227	11,149	(30,887,933)	(19,585,447)
75,000 to 100,000	57,162	782,096,134	13,682	(37,148,570)	(23,462,884)
100,000 to 150,000	90,704	1,408,447,810	15,528	(69,209,139)	(42,253,434)
150,000 to 250,000	56,266	917,678,987	16,310	(47,853,914)	(27,530,370)
250,000 to 500,000	14,625	241,468,078	16,511	(13,276,698)	(7,244,042)
500,000 to 1,000,000	2,804	47,154,804	16,817	(2,682,115)	(1,414,644)
Greater than $1M	535	8,977,650	16,781	(514,909)	(269,330)
Total	**333,552**	**4,549,858,270**	**13,641**	**(223,183,895)**	**(135,283,927)**

Analyzing which taxes a taxpayer will prioritize presents challenges as the calculations of both federal and State taxes feed into each other. The remainder of the tables that detail isolated impacts from various changes to itemized deductions assume that all taxpayers prioritize their federal tax bills. One method had to be chosen, as the analysis gets circular if certain components are isolated. This approach provides the most information for decision makers. Table 11d details specific deductions that would be increased relative to the tables for individual provisions (following this section) should some share of those 333,552 taxpayers elect to itemize. While not affecting the table below, it is worth noting that 86% of the 333,552 taxpayers had charitable contributions totaling $846 million.

Table 11d. Taxpayers That May Elect to Pay More Federal Taxes to Minimize All Taxes -- Offsets										
Tax Year 2014										
	Total	Real Estate Taxes Over $10k			Personal Casualty & Theft Losses			Misellanous Deductions		
Federal Adjusted Gross Income Class	Number of Taxpayers	Number of Taxpayers	Real Estate Taxes Lost Over $10k	State & Local Tax Impact	Number of Taxpayers	Total C&T Losses	State & Local Tax Impact	Number of Taxpayers	Total Misc Deductions	State & Local Tax Impact
0 or less	10	-	-	-	-	-	-	6	46,025	179
0 to 25,000	9,953	84	469,480	29,506	17	94,457	5,936	2,151	6,765,805	425,213
25,000 to 50,000	42,936	274	1,084,146	79,410	66	470,378	34,454	11,106	59,744,779	4,376,103
50,000 to 75,000	58,557	427	2,002,049	154,784	64	577,387	44,639	14,639	87,136,869	6,736,776
75,000 to 100,000	57,162	517	2,378,655	184,343	43	994,414	77,066	11,744	71,529,554	5,543,449
100,000 to 150,000	90,704	1,171	4,254,268	336,677	70	1,021,490	80,839	17,285	109,122,699	8,635,817
150,000 to 250,000	56,266	2,005	7,594,817	623,889	30	818,113	67,205	9,060	67,671,670	5,559,003
250,000 to 500,000	14,625	2,353	12,998,464	1,104,652	46	2,837,903	241,174	2,170	22,131,925	1,880,843
500,000 to 1,000,000	2,804	1,166	9,294,295	807,478	14	1,873,082	162,731	444	7,509,926	652,454
Greater than $1M	535	258	6,273,018	547,977	14	8,181,853	714,722	80	1,959,509	171,172
Total	**333,552**	**8,255**	**46,349,192**	**3,868,715**	**364**	**16,869,077**	**1,428,768**	**68,685**	**433,618,761**	**33,981,010**

Itemized Deductions ($10,000 Cap on State and Local Taxes)

The TCJA limits the amount of SALT that can be included in itemized deductions to $10,000. For federal purposes, SALT includes income taxes as well as property taxes. Maryland, under Tax

General Section 10-218 (b)(3), has always required taxpayers to add back their State and local income taxes, therefore only allowing the deduction for property taxes.

It remains unclear how the federal government will choose to administer this new cap. We assume that they will maintain the pre-existing reporting requirement (taxpayer notes full amounts) and then a summary line that limits the total to $10,000. If that is the case, then a Maryland taxpayer would want to define every dollar possible up to the cap as property taxes which would ensure that they limit the federal tax added back for Maryland tax purposes.

Of those taxpayers that would still itemize their deductions, 56,885 would be limited by the federal cap for Maryland purposes. This would subject $562 million more in income to State and local income taxes, generating approximately $31 million for the State and $17 million for local governments. It is worth noting that these amounts are prior to the property tax rate increase in Montgomery County.

Table 12. Real Estate Taxes Exceeding the $10K Cap

Tax Year 2014

Federal Adjusted Gross Income Class		Number of Taxpayers	Total Amount Over Cap	Average Amount Over Cap	Estimated Exclusive State Tax Impact	Estimated Exclusive Local Tax Impact
0 or less		482	5,625,952	11,672	18,712	3,173
0 to 25,000		711	5,956,922	8,378	247,150	127,227
25,000 to 50,000		1,510	7,904,809	5,235	351,764	227,237
50,000 to 75,000		2,428	14,588,990	6,009	690,243	437,670
75,000 to 100,000		3,071	13,598,305	4,428	645,902	407,949
100,000 to 150,000		6,553	27,545,812	4,204	1,353,562	826,374
150,000 to 250,000		11,813	50,825,270	4,302	2,650,369	1,524,758
250,000 to 500,000		16,314	101,525,132	6,223	5,582,181	3,045,754
500,000 to 1,000,000		9,064	98,584,163	10,876	5,607,361	2,957,525
Greater than $1M		4,939	235,394,297	47,660	13,500,943	7,061,829
Total		**56,885**	**561,549,652**	**9,872**	**30,648,188**	**16,619,495**

Other Technical Considerations: Maryland Tax General Section 10-218 (b)(3) requires taxpayers to addback the State and local taxes "claimed." This addback only applies to income taxes; it does not include other State and local taxes (i.e., property taxes). We do not know how the IRS will administer the $10,000 cap. We assume that they will require a taxpayer to report all of their State and local taxes and have a subsequent field that limits the amount. For example, a taxpayer is required to report $14,000 in State and local income taxes and $12,000 in property taxes. The federal form limits the deduction to $10,000; that is the only amount of deduction that concerns the federal government. However, the taxpayer has technically claimed $14,000. Under this scenario, it would benefit the taxpayer to describe their $10,000 cap as being fully composed of property taxes; technically, they would not have an addback. Whether or not they would addback the $14,000 seems clearly to violate the intent of the Maryland statute, but the TCJA and possible federal application of that law leave the wording of Maryland statute ambiguous.

Itemized Deductions (Interest for Home Acquisition and Home Equity Debt)

The TCJA reduces the amount of interest that can be deducted for home indebtedness. Prior law permitted taxpayers to deduct interest paid for home acquisition loans up to $1.0 million of indebtedness; that threshold is reduced to $750,000 for indebtedness incurred between tax years 2018 and 2025. After 2025, the threshold is restored to $1.0 million, regardless of date of occurrence. For homes with indebtedness larger than the thresholds, the amount of interest that can be deducted is the total paid multiplied by a factor of the threshold divided by the average indebtedness for that year. All of the above indebtedness provisions exclude related debt incurred prior to October 12, 1987; that debt is grandfathered in with no limitation.

Interest for the indebtedness of a second home is also deductible if that home is not rented out or if the taxpayer uses that home for the larger of the following: 14 days or 10% of the days that the property is rented out at fair-market value. The combined indebtedness for the principal residence and the second home, assuming they meet the prior requirements, are capped by the aforementioned thresholds.

Reduced home related interest deducted will increase State and local income tax revenues. We do not have data to simulate the revenue impact as we have for other provisions. Only total interest is reported on tax returns. Hypothetical taxpayer impact examples are provided below. Under those scenarios, taxpayers that would have already been limited (above $1M) would see a federal tax increase of $4,000 and a State and local tax increase of $1,000. For those between the new and old thresholds, the increases in taxes are smaller. It is worth noting that this does reduce the value of a housing incentive; dynamic impacts to house prices for this provision will likely be minimal, except for those between the thresholds.

Table 13a. Revenue Impact Example - $750k Mortgage Indebtedness Cap

	Taxpayer A		Taxpayer B		Taxpayer C	
Item	**$1M Cap**	**$750k Cap**	**$1M Cap**	**$750k Cap**	**$1M Cap**	**$750k Cap**
(a) Mortgage Indebtedness	1,332,825	1,332,825	7,000,000	7,000,000	850,000	850,000
(b) Threshold	1,000,000	750,000	1,000,000	750,000	1,000,000	750,000
(c) Interest Paid	62,000	62,000	331,000	331,000	41,000	41,000
(d) Ratio - If above threshold ((b)/(a))	75.0%	56.3%	14.3%	10.7%	100.0%	88.2%
(e) Deductable Interest ((c)*(d))	46,518	34,888	47,286	35,464	41,000	36,176
(f) Federal Cap Tax Increase ((c)-(e))*32%	5,109	8,947	93,626	97,527	-	1,592
(g) S&L Cap Tax Increase ((c)-(e))*8.5%	1,316	2,304	24,116	25,121	-	410

To complement the above and estimate the tax impact, the Maryland Department of Assessments and Taxation provided the quantity and value of home sales over $1 million. The assumption is that taxpayers would put down roughly 20%, especially in this low interest rate environment, therefore subjecting those homes to the cap. We found a relatively stable volume and average price for applicable home sales between 2015 and 2017.

In general, approximately 1,700 home transactions occur annually in Maryland for an average of $1.5 million. We inflated that number by 10% annually to account for homes owned that are outside of Maryland as well as to support the fact that second homes can sum to the total threshold. Each year, the revenue gain gets larger; for example, a new $1 million home purchase is impacted in 2018 and then again in 2019, while new transactions come on board. The tax impact pyramids, though we do have each succeeding year diminishing by 10% as homes are re-sold and principal is reduced. See Tables 13b and 13c below with assumptions and estimated revenue impacts for the federal tax and combined State and local taxes increases.

Table 13b. Federal Tax Revenue Impact - $750 Thousand Mortgage Indebtedness Cap

Dollars in Thousands

	Base Assumptions				Cumulative Tax Increase				
Tax Year	Count of Impacted Taxpayers	Average Increase in Tax	Annual Tax Increase		Tax Year 2018 Tax Increase	Tax Year 2019 Tax Increase	Tax Year 2020 Tax Increase	Tax Year 2021 Tax Increase	Tax Year 2022 Tax Increase
2018	1,870	3.500	6,545		6,545	5,891	5,301	4,771	4,294
2019	1,870	3.500	6,545		-	6,545	5,891	5,301	4,771
2020	1,870	3.500	6,545		-	-	6,545	5,891	5,301
2021	1,870	3.500	6,545		-	-	-	6,545	5,891
2022	1,870	3.500	6,545		-	-	-	-	6,545
Total					**6,545**	**12,436**	**17,737**	**22,508**	**26,802**

Table 13c. State & Local Tax Revenue Impact - $750 Thousand Mortgage Indebtedness Cap

Dollars in Thousands

	Base Assumptions				Cumulative Tax Increase				
Tax Year	Count of Impacted Taxpayers	Average Increase in Tax	Annual Tax Increase		Tax Year 2018 Tax Increase	Tax Year 2019 Tax Increase	Tax Year 2020 Tax Increase	Tax Year 2021 Tax Increase	Tax Year 2022 Tax Increase
2018	1,870	0.750	1,403		1,403	1,262	1,136	1,022	920
2019	1,870	0.750	1,403		-	1,403	1,262	1,136	1,022
2020	1,870	0.750	1,403		-	-	1,403	1,262	1,136
2021	1,870	0.750	1,403		-	-	-	1,403	1,262
2022	1,870	0.750	1,403		-	-	-	-	1,403
Total					**1,403**	**2,665**	**3,801**	**4,823**	**5,743**

Home equity indebtedness, including home equity lines of credit (HELOC), was limited to $100,000. Under TCJA, that deduction is eliminated. This provision also applies only to tax years 2018 through 2025. A survey of consumer finances by the Federal Reserve Board finds that, nationally, 4.4% of households have an open HELOC for an average balance of approximately $50,000. Applying these statistics to Maryland's households, assuming a 5.5% interest rate and that 90% of those households itemize their deductions, results in $217.8 million in lost itemized deductions. See Tables 13d and 13e for estimated revenue impacts for the federal tax and combined State and local tax increases.

Table 13d. Federal - Eliminate Deduction For HELOC Interest					
Dollars in Thousands					
	Tax Year 2018 Tax Increase	Tax Year 2019 Tax Increase	Tax Year 2020 Tax Increase	Tax Year 2021 Tax Increase	Tax Year 2022 Tax Increase
Total	**65,340**	**65,340**	**65,340**	**65,340**	**65,340**

Table 13e. State & Local - Eliminate Deduction For HELOC Interest					
Dollars in Thousands					
	Tax Year 2018 Tax Increase	Tax Year 2019 Tax Increase	Tax Year 2020 Tax Increase	Tax Year 2021 Tax Increase	Tax Year 2022 Tax Increase
Total	**17,424**	**17,424**	**17,424**	**17,424**	**17,424**

The total general fund impact for this section is as follows:

Table 13f. General Fund Revenue Impact $750k Indebtedness Cap & Eliminated HELOC Interest						
Dollars in Thousands						
	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023
750k	-	1,339	1,908	2,625	3,270	3,894
HELOC	-	12,251	10,890	10,890	10,890	10,890
Total	**-**	**13,590**	**12,798**	**13,515**	**14,160**	**14,784**

Itemized Deductions (Temporary Enhancement for Medical Expenses)

Under prior law, taxpayers could deduct unreimbursed medical expenses to the extent that those expenses exceeded 10% of adjusted gross income. For tax years 2016 and prior, taxpayers with either the primary or secondary filer aged 65 or older could deduct to the extent that those expenses exceeded 7.5% of adjusted gross income.

The TCJA temporarily expands the 7.5% threshold to all taxpayers for tax years 2017 and 2018. The temporarily reduced floor will result in a tax cut for both federal and State and local taxes for those tax years. Table 14 on page 28 is a summary of the amount by which those deductions would have increased in tax year 2014:

Table 14. Enhancement of Threshold for Medical Expenses							
Tax Year 2014							
Federal Adjusted Gross Income Class		Number of Taxpayers	Total Increase in Deductions	Average Deduction Increase	Estimated Exclusive State Tax Impact	Estimated Exclusive Local Tax Impact
0 or less		2,320	(2,504,238)	(1,079)	130,539	75,127
0 to 50,000		91,410	41,455,758	454	(1,802,491)	(1,138,479)
50,000 to 100,000		77,785	73,051,972	939	(3,426,131)	(2,070,795)
100,000 to 250,000		37,183	55,637,010	1,496	(2,960,639)	(1,669,110)
250,000 to 500,000		1,879	13,046,308	6,943	(736,690)	(391,389)
500,000 to 1,000,000		226	3,745,408	16,573	(215,093)	(112,362)
Greater than $1M		61	4,097,322	67,169	(235,596)	(122,920)
Total		**210,864**	**188,529,539**	**894**	**(9,246,102)**	**(5,429,928)**

Itemized Deductions (Increased Limitation for Charitable Contributions)

Under prior law, there were various caps, limitations, and rules regarding different forms of charitable contributions (e.g., cash, capital gain property); those caps differed based on the type of charity or foundation.

In general, under the TCJA, much of that complexity remains, though three substantive changes have been made:

1. The limitation on cash contributions to most charitable organizations is increased from 50% of adjusted gross income to 60%;
2. A donation made in exchange for college athletic seating rights is no longer considered a charitable contribution; and
3. Certain substantiation requirements for the charitable organizations themselves have been simplified.

Items 1 and 2 will directly impact State and local tax revenues, though the impact will be minimal in the aggregate. We do not have data on the amount of contributions that are over the current threshold, nor do we have data on how much is donated for college seating rights.

We know that very few taxpayers are currently bumping up against the current 50% threshold, and we assume that the amount donate for college seating rights is minimal. In tax year 2014, more than 1.1 million Marylanders deducted just over $5.3 billion in charitable contributions. Only 0.3% of those making contributions were at or above the current threshold.

Table 15, on the next page, illustrates the number of donations by the share of that donation relative to income.

Table 15. 2014 Frequency Distribution of Charitable Deductions			
Share of Contribution Relative to Income			
Charitable Contribution as a Share of Federal Adjusted Gross Income		Number of Taxpayers	Cumulative Share
Negative AGI		609	0.1%
>0% and <1%		355,742	30.6%
>=1% and <25%		780,755	97.5%
>=25% and <40%		18,264	99.1%
>=40% and <50%		6,926	99.7%
>=50% and <75%		2,412	99.9%
>=75% and <100%		476	99.9%
>=100%		829	100.0%
Total		**1,166,013**	

Itemized Deductions (Personal Casualty and Theft Losses)

Under prior law, a taxpayer could claim a deduction for property lost or stolen for which the taxpayer was not compensated by an insurer. This generally included personal property with a value greater than $100 or property of a pass-through business. The losses were only deductible to the extent that they exceeded 10% of federally adjusted gross income.

The TCJA eliminates the deduction for all losses except for those attributable to a disaster declared by the President. This limitation is in effect for tax years 2018 through 2025. For purposes of our estimate, we have assumed that all losses reported by our taxpayers did not occur in disaster areas. Table 16 is a summary of the amounts that were deducted in tax year 2014:

Table 16. Repeal of Most Personal Casualty & Theft Losses						
Tax Year 2014						
Federal Adjusted Gross Income Class		Number of Taxpayers	Total Lost Deductions	Average Lost Deduction	Estimated Exclusive State Tax Impact	Estimated Exclusive Local Tax Impact
0 or less		21	367,676	17,508	19,166	11,030
0 to 50,000		700	6,932,164	9,903	301,410	190,375
50,000 to 100,000		583	9,383,630	16,095	440,091	265,997
100,000 to 250,000		439	8,906,741	20,289	473,959	267,202
250,000 to 500,000		257	12,561,985	48,879	709,342	376,860
500,000 to 1,000,000		120	12,935,628	107,797	742,872	388,069
Greater than $1M		96	122,697,505	1,278,099	7,055,107	3,680,925
Total		**2,216**	**173,785,329**	**78,423**	**9,741,946**	**5,180,457**

Itemized Deductions (Miscellaneous Deductions Subject to 2% Floor)

Prior law permitted a deduction for myriad miscellaneous expenses that generally relate to the production or collection of income. Those deductions were permitted to the extent that they exceeded 2% of federally adjusted gross income. Examples of these types of deductions include expenses for: investment fees and expenses; appraisal fees for charitable contributions; tax preparation fees; unreimbursed dues to professional societies; job search expenses.

The TCJA eliminates the deduction for tax years 2018 through 2025. Table 17 is a summary of the amounts that were deducted in tax year 2014:

Table 17. Repeal of Miscellaneous Deductions Subject to 2% Floor						
Tax Year 2014						
Federal Adjusted Gross Income Class		Number of Taxpayers	Total Lost Deductions	Average Lost Deduction	Estimated Exclusive State Tax Impact	Estimated Exclusive Local Tax Impact
0 or less		2,036	12,722,688	6,249	663,197	381,681
0 to 50,000		122,371	928,590,467	7,588	40,375,004	25,501,416
50,000 to 100,000		121,620	874,091,100	7,187	40,994,800	24,777,751
100,000 to 250,000		97,535	736,790,086	7,554	39,207,171	22,103,703
250,000 to 500,000		11,503	133,134,150	11,574	7,517,729	3,994,025
500,000 to 1,000,000		2,922	61,961,739	21,205	3,558,360	1,858,852
Greater than $1M		1,486	125,853,844	84,693	7,236,596	3,775,615
Total		**359,473**	**2,873,144,074**	**7,993**	**139,552,857**	**82,393,042**

Itemized Deductions (Overall Limitation "Pease Limitation")

Prior law limited the aggregate amount of most itemized deductions allowed to $313,000 (married-filing-joint) and $261,000 (single). Other filing statuses had similar thresholds. While calculations for the limitation did not apply to all components, it did include the most substantive provisions, including: mortgage interest; property taxes; state and local income taxes; and charitable contributions. The forced reduction to itemized deductions was the lesser of 3% of income over the threshold or 80% of the pre-limited applicable deductions.

The TCJA eliminates the limitation for tax years 2018 through 2025. Table 18, on the next page, is a summary of the amount that those deductions would have increased in tax year 2014.

Table 18. Repeal of Limitation on Itemized Deductions							
Tax Year 2014							
Federal Adjusted Gross Income Class		Number of Taxpayers	Total Increase in Deductions	Average Deduction Increase	Estimated Exclusive State Tax Impact	Estimated Exclusive Local Tax Impact
0 or less		21	452,956	21,569	(23,611)	(13,589)
0 to 50,000		12	120,078	10,006	(5,221)	(3,298)
50,000 to 100,000		16	156,762	9,798	(7,352)	(4,444)
100,000 to 250,000		1,689	2,141,562	1,268	(113,960)	(64,247)
250,000 to 500,000		36,194	81,278,718	2,246	(4,589,591)	(2,438,362)
500,000 to 1,000,000		16,780	181,214,562	10,799	(10,406,853)	(5,436,437)
Greater than $1M		7,568	389,108,576	51,415	(22,373,743)	(11,673,257)
Total		**62,280**	**654,473,213**	**10,509**	**(37,520,332)**	**(19,633,633)**

Adjusted Gross Income (Moving Expenses)

Prior law effectively permitted a taxpayer to exclude most moving expenses related to changing a job. This was accomplished through two mechanisms: (1) an exclusion from income of any reimbursements from a taxpayer's employer for moving expenses paid by the taxpayer; or (2) a deduction from income of any expenses not reimbursed by the employer, providing those expenses met certain conditions.

Except for members of the Armed Forces, the TCJA repeals the exclusion and the deduction for all taxpayers. The repeals are in effect from tax year 2018 through tax year 2025. We do not have data on the amount of income that has been excluded; however, we believe it to be minimal in the aggregate. Table 19 shows the amount of income excluded from taxation through the deduction.

Table 19. Moving Expenses Deduction from Income						
Tax Year 2014						
Federal Adjusted Gross Income Class		Number of Taxpayers	Total Lost Deductions	Average Lost Deduction	Estimated Exclusive State Tax Impact	Estimated Exclusive Local Tax Impact
0 or less		146	736,454	5,044	7,365	3,682
0 to 25,000		4,726	9,840,638	2,082	344,422	196,813
25,000 to 50,000		7,344	16,200,096	2,206	745,204	453,603
50,000 to 75,000		5,647	15,860,965	2,809	753,396	475,829
75,000 to 100,000		3,798	13,077,694	3,443	620,763	392,331
100,000 to 150,000		3,961	16,211,666	4,093	775,481	486,350
150,000 to 250,000		2,750	14,092,977	5,125	723,646	422,789
250,000 to 500,000		915	5,972,973	6,528	320,223	179,189
500,000 to 1,000,000		162	1,735,232	10,711	95,438	52,057
Greater than $1M		30	523,744	17,458	28,806	15,712
Total		**29,479**	**94,252,439**	**3,197**	**4,414,745**	**2,678,355**

Adjusted Gross Income (Alimony)

Under prior law, alimony payments from the payor were deductible, with the payee including those payments as income. The TCJA flips the relationship, specifying that the income must be included for taxation by the payor, rather than the payee. The new provision applies to divorce or separation instruments executed or modified after 2018. The intent of the provision is to conform to the United States Supreme Court's ruling in *Gould v. Gould*. While not a perfect cancellation because of variable brackets, income thresholds, and residency, there is essentially no revenue effect. In tax year 2014, 10,264 tax returns deducted $220 million in alimony, while 7,302 tax returns added $180 million.

Adjusted Gross Income (Limitation on Business Losses for Individuals)

Under prior law, a taxpayer that is an active participant in a non C-Corp business could utilize all of a current year's business losses to offset other types of income and then turn any additional excess loss amounts into a net operating loss (NOL) for use in other tax years (carry-back or carry-forward). This often reduced that taxpayer's tax to zero for the current year and generated refunds for prior year and/or reduced tax in future years.

The TCJA limits the amount of losses that can be used to offset other income in the current year to $250,000 for individuals and $500,000 for joint filers. The excess amounts can then be translated into NOLs. NOLs are also changed in the TCJA (see section on NOLs on the next page). This provision impacts a small number of taxpayers. However, for those that it does impact, the change is meaningful. In theory, the impact is a net zero over the course of history as it essentially creates additional net operating losses. It will pull money forward. Separately, and likely of little impact, those thresholds are also applied to farm income, which had a lower threshold. Table 20 illustrates the impact. The amounts in the table are income that would be subject to taxation in the current year and then turned to net operating losses for future tax years.

Table 20. Limitation on Excessive Business Losses from Income
Tax Year 2014

Federal Adjusted Gross Income Class		Number of Taxpayers	Total Lost Deductions	Average Lost Deduction	Estimated Exclusive State Tax Impact	Estimated Exclusive Local Tax Impact
0 or less		369	395,385,252	1,071,505	21,069,472	11,861,558
0 to 25,000		21	16,417,613	781,791	878,012	492,528
25,000 to 50,000		29	22,680,560	782,088	1,231,292	680,417
50,000 to 75,000		40	18,008,348	450,209	979,897	540,250
75,000 to 100,000		32	9,780,027	305,626	513,132	293,401
100,000 to 150,000		18	9,947,220	552,623	500,181	298,417
150,000 to 250,000		28	20,657,532	737,769	1,102,038	619,726
250,000 to 500,000		61	59,122,368	969,219	3,347,035	1,773,671
500,000 to 1,000,000		58	81,076,736	1,397,875	4,656,508	2,432,302
Greater than $1M		124	332,332,733	2,680,103	19,109,132	9,969,982
Total		**780**	**965,408,389**	**1,237,703**	**53,386,700**	**28,962,252**

Adjusted Gross Income (Modification of Net Operating Losses)

A NOL occurs when a taxpayer's business deductions exceeds income. Myriad special treatments occur; however, those losses can generally be carried-back two years and carried-forward for twenty years. When carried back, the NOL results in an amended tax return and a refund. When carried forward, the NOL serves to reduce or eliminate taxable income, and therefore tax, in future years. Maryland has effectively decoupled from some of the special NOL provisions, but permits the general circumstances above.

For losses incurred after tax year 2017, the TCJA eliminates the carry-back provision and limits the deduction to 80% of taxable income therefore reducing a taxpayer's ability to fully reduce income in future years. Losses incurred in tax year 2017 and prior can be used to eliminate up to 100% of taxable income until exhausted. For losses incurred after tax year 2017, the carry-forward provision is allowed indefinitely. Certain special treatments are made, particularly for property and casualty insurance companies.

The elimination of the carry-back and the 80% limitation work to pull revenue forward. Similar to the limitation on business losses, this provision in theory is roughly revenue neutral over a long period of time. We estimate that we process between 8,000 and 10,000 NOL carry-back refunds for individual taxpayers, totaling refunds of between $18 million and $30 million. The volume and amounts are volatile, but generally dependent on proximity to recession; the recession triggers losses that enable the taxpayer to go back to a boom year and claim a refund.

To the extent that a taxpayer creates a NOL and has an applicable prior year for which to apply, they would almost certainly do so, meaning that the inventory of existing NOLs for carry-back is likely very small. On the other hand, we have no data on the amount of carry-forwards available from prior years, meaning that the 80% limitation on losses created in 2018 and thereafter are likely to "sit on the shelf" for years before coming into use. Therefore, the near-term revenue gain is almost exclusively the lost carry-backs.

As we are in an expansion, we estimate that NOL carry-backs will be reduced by $20 million per tax year for tax years beginning after 2017. The first decline in carry-backs would generally not occur until after April 2019, when the first return is due for tax year 2018, creating the NOL, and would have then permitted an amended return for tax years 2017 or 2016.

Additionally, as those amended returns are generally complicated and often require dialogue with the taxpayer, processing can take longer than normal. As such, that would push the first year of impact into fiscal year 2020.

The estimate revenue change is outlined in Table 21 on page 34.

Item		Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023
Table 21. Personal Income Tax Revenue Impact - Lost Carry-Back NOLs							
Dollars in Thousands							
Total Carry-Back NOLs Saved		-	-	20,000	20,000	20,000	20,000
State Income Tax Share		-	-	12,530	12,530	12,530	12,530
Local Income Tax Share		-	-	4,680	4,680	4,680	4,680

State Modification (529 Plans for Elementary and Secondary Schools)

In general, a 529 plan functions similar to a Roth IRA, with the contributions to the account not deductible at the federal tax level. However, the gains accumulated in the account are not taxable when withdrawn under qualified conditions. The State allows a subtraction from income for up to $2,500 of contributions made per beneficiary and per account holder to qualified 529 plans. This essentially caps the annual subtraction at $5,000 per child on a joint return. Contributions in excess of the subtraction can be carried-forward to offset future income. The State also excludes the gains when withdrawn for qualified conditions. In the case of a 529, the qualified conditions are generally referred to as “qualified higher education expenses”. For 529 accounts established after 2016, the State offers a matching contribution of $250 per beneficiary if the account holder had income less than $112,500 for an individual or $175,000 for a joint filer. In years where a match is received, the tax subtraction is not permitted.

The TCJA expands the definition of “qualified higher education expense” to include expenses for tuition and certain other related school expenditures at an “elementary or secondary public, private, or religious school.” The amount of distributions for the new broadened provision cannot exceed $10,000 per beneficiary. This should greatly increase demand for 529 plans, resulting in more demand for the State subtraction, and possibly the match as well. Even if the taxpayer generally funds those expenditures with current cash, they could contribute monthly tuition amounts to a 529 account and then withdraw those amounts almost immediately. It could be the case that the parents max out their tax benefited distributions at $5,000 per child and then a set of grandparents does the same for the same child, enabling $10,000 in subtractions for income and $10,000 in tuition.

We do not know how many beneficiaries that might benefit from the broadened treatment already have an existing account, or of those that do, how many are already maxing out their tax benefit. We do know that in tax year 2016, 52,641 tax returns claimed a subtraction for contributions to the related Maryland Investment Plans. In total, $232 million in income was subtracted for State and local tax savings of $11.1 million and $7.0 million, respectively. Additionally, an annual report from the Maryland 529 detailed that there were investment plan accounts for 169,617 beneficiaries in fiscal year 2016.

A report from the Maryland State Department of Education details that 96,763 children were enrolled in non-public schools grades K-12 in 2016. Table 22 was created based on various shares of that population that might be incentivized and assumptions about the average amount that would be subtracted from income. It seems highly likely that most families would take advantage and would do so through the subtraction, not only because of the income limitations for the cap, but because a $5,000 income subtraction at a combined State and local tax rate of 8.25% is worth more than $400. For purposes of the initial estimate, we will assume a State revenue decrease of $20 million per year. While there may be investment gains that go untaxed, we assume that most of the impact is current cash and therefore the untaxed investment gains are minimal.

Table 22. Expansion of 529 Subtraction

Impacted Student Population		% of Incentivized Beneficiaries	Number of Beneficiaries		Average Subtraction Per Beneficiary		Subtracted Income	State Tax Decrease @ 5.25%	Local Tax Decrease @ 3.0%
96,763		10%	9,676		6,000		58,056,000	3,047,940	1,741,680
96,763		20%	19,353		6,000		116,118,000	6,096,195	3,483,540
96,763		30%	29,029		6,000		174,174,000	9,144,135	5,225,220
96,763		40%	38,705		6,000		232,230,000	12,192,075	6,966,900
96,763		50%	48,382		6,000		290,292,000	15,240,330	8,708,760
96,763		60%	58,058		6,000		348,348,000	18,288,270	10,450,440
96,763		70%	67,734		6,000		406,404,000	21,336,210	12,192,120
96,763		80%	77,410		6,000		464,460,000	24,384,150	13,933,800
96,763		90%	87,087		6,000		522,522,000	27,432,405	15,675,660

Dynamic Effects

While we do share the estimated net tax impacts to determine additional taxable spending for sales tax purposes, our results do not include other macroeconomic consequences. Additionally, other than taxpayers shifting between deduction types, we do not make any assumptions regarding shifting taxpayer behavior. Various possible dynamic impacts are itemized below. Surely, as the TCJA is so broad in nature and because taxes have extraordinary impacts on macroeconomic and financial decisions, there are destined to be currently unidentifiable consequences.

1. A component of the preferential rate for qualified business income seeks to limit that treatment to non-wage income. It is highly likely that some taxpayers will find mechanisms to shift currently defined wage income to into business income. To the extent that this occurs, State income tax withholding will decrease, as will unemployment insurance and federal payroll taxes. Some of that withholding would likely be recouped through other tax payments, though redefining that income as business income permits business reductions to it that are not afforded to wage earners.

2. The preferential treatment of qualified business income has a tremendous number of qualifications. Those qualifiers are likely to incentivize reorganization by certain businesses. Before identifying those opportunities, we must note that business reorganization requires the consideration of a multitude of factors in addition to taxation. Furthermore, based on input from highly respected private tax attorneys, we have learned that the proper information does not yet exist for those attorneys to advise their clients on such an important decision. Proper decisions will require forthcoming regulation and rules from the federal government; some fine points may not be known until after completed future audits or litigation. Organization decisions tend to be sticky, meaning that a business cannot restructure each year as they see fit. Possible dynamic impacts include:

    a. Pass through businesses that elect to separate the existing business into multiple businesses. For example, over a certain income threshold, lawyers cannot claim the tax break due to the requirement that service businesses are not applicable. A legal firm was quoted as saying that they would consider separating a side of its business that produces documents and tangible products which might create qualified business income. This would likely have limited effect on State and local revenues, though it is a terribly inefficient use of economic resources.

    b. Due to the complexity and qualifiers surrounding qualified business income, some pass-through businesses may elect to reorganize as C-Corps to benefit from an even lower tax rate and greater certainty. Assuming that the reorganization resulted in comparable amounts of taxable income in Maryland, the result would likely be an increase in State tax revenues, as the corporate tax rate is 8.25% compared to the top personal rate of 5.75%; however, that income would no longer be taxable by local governments.

3. There will be a reduced amount of charitable contributions. The significantly increased federal standard deduction in concert with reductions to other components of itemized deductions incentivizes a tremendous number of taxpayers to take the shift into the standard deduction, effectively eliminating the tax benefit of a charitable contribution. We do not mean to insinuate that taxpayers only make contributions for tax purposes; certainly many taxpayers that do not get any tax benefit make charitable contributions. Rather, the lost tax benefit reduces the marginal benefit of each contributed dollar. That benefit may have functioned in two ways; (1) to incentivize donations all together; or (2) as a sort of match by the federal government, encouraging increased donations relative to what might have been donated otherwise. In effect, if we assume a marginal tax rate of 35%, the taxpayer only has to "pay" for 65% of their contribution. While we cannot estimate the impact that this will have on charitable giving by Marylanders, we can report that, of the 700,000 Marylanders that are expected to shift into the standard deduction, 574,000 claimed contributions totaling $1.5 billion.

4. Similar to charitable deductions, fewer taxpayers will find benefit from deducting mortgage interest, both in terms of no longer itemizing, but also due to the lower indebtedness threshold. While the taxpayer's bottom line may improve, specifically from a larger standard deduction, a benefit is no longer gained from home ownership. This may have an impact on home prices. The United Kingdom phased out a significant mortgage interest deduction beginning in 1988 and concluded the phase out in 2000. Surprisingly, we have not yet found empirical research on the event.

5. It is possible that macroeconomic activity could increase as a result of a large national tax cut. There will be more money in the hands of consumers and investors, which will create positive economic impacts. However, there is no free lunch. For now, this is deficit spending (~$1.5 trillion over 10 years), meaning that the U.S. Treasury will have to borrow funds, driving up the cost of borrowing for all entities. Increased interest rates are a drag on economic growth. Alternatively, the federal government may in the future elect to reduce government spending. Should that reduction come in the form of reduced discretionary spending, Maryland will be disproportionately impacted relative to the nation as a whole, in a manner similar to sequestration.

6. Additionally, it is worth noting that the nation is steamrolling towards extraordinary funding requirements for existing entitlement obligations, most notably Social Security and Medicare. Should the tax cut not actually pay for itself, the federal fiscal situation will be even more dire as decisions to shore up those programs are finally made. To put this in perspective, the Congressional Budget Office expects mandated Medicare expenditures to increase from $692 billion in 2016 to $1.2 trillion in 2025. Assuming steady and reasonable economic growth (i.e., no recession), the share of Medicare spending relative to gross domestic product will increase form 3.8% to 4.6%. Similarly, Social Security outlays are projected to increase from $916 billion in 2016 to $1.5 trillion in 2025; the account will then have negative current cash flow of $250 billion (drawing from "trust" fund).

Examples of Federal Tax Impact

	Law	Wages, salaries, tips, etc. (a)	Business Income/ Loss (b)	Adjusted Gross Income (c)	Standard/ Itemized Deduction (d)	Personal Exemptions (e)	Taxable Inc (f)	Tax (g)	CTC Credits (h)	Federal Net Tax (i)
Taxable Income < $25,000		Single filer, no qualifying children, AGI $20,000, itemized deductions of $9,000								
		(a)	(b)	(a+b)	(d)	(e)	(c - d - e)	(f * Rates)	(h)	(g - h)
	Prior Law	20,000	-	20,000	9,000	4,050	6,950	695	-	695
	TCJA	20,000	-	20,000	12,000	-	8,000	800	-	800
		Single filer, no qualifying children, AGI $35,000, standard deduction								
		(a)	(b)	(a+b)	(d)	(e)	(c - d - e)	(f * Rates)	(h)	(g - h)
	Prior Law	35,000	-	35,000	6,350	4,050	24,600	3,224	-	3,224
	TCJA	35,000	-	35,000	12,000	-	23,000	2,570	-	2,570
		Single filer, one qualifying child, AGI $25,000, standard deduction								
		(a)	(b)	(a+b)	(d)	(e)	(c - d - e)	(f * Rates)	(h)	(g - h)
	Prior Law	25,000	-	25,000	6,350	8,100	10,550	1,116	1,000	116
	TCJA	25,000	-	25,000	12,000	-	13,000	1,370	2,769	(1,400)
		Married Joint filer, one qualifying child, AGI $33,000, itemized deductions of $21,000								
		(a)	(b)	(a+b)	(d)	(e)	(c - d - e)	(f * Rates)	(h)	(g - h)
	Prior Law	46,000	-	46,000	21,000	16,200	8,800	880	1,400	(520)
	TCJA	46,000	-	46,000	24,000	-	22,000	2,259	2,000	259
		Married Joint filer, one qualifying child, AGI $49,000, standard deduction								
		(a)	(b)	(a+b)	(d)	(e)	(c - d - e)	(f * Rates)	(h)	(g - h)
	Prior Law	49,000	-	49,000	12,700	12,150	24,150	2,690	1,000	1,690
	TCJA	49,000	-	49,000	24,000	-	25,000	2,619	2,000	619
Taxable Income $25,000 - $50,000		Single filer, one qualifying child, AGI $55,000, itemized deductions of $9,000								
		(a)	(b)	(a+b)	(d)	(e)	(c - d - e)	(f * Rates)	(h)	(g - h)
	Prior Law	55,000	-	55,000	9,000	8,100	37,900	5,219	1,000	4,219
	TCJA	55,000	-	55,000	12,000	-	43,000	5,400	2,000	3,400
		Single filer, no qualifying children, AGI $65,000, itemized deductions of $25,000								
		(a)	(b)	(a+b)	(d)	(e)	(c - d - e)	(f * Rates)	(h)	(g - h)
	Prior Law	65,000	-	65,000	25,000	12,150	27,850	3,711	-	3,711
	TCJA	65,000	-	65,000	22,400	-	42,600	5,312	-	5,312
		Married Joint filer, no qualifying children, AGI $70,000, standard deduction								
		(a)	(b)	(a+b)	(d)	(e)	(c - d - e)	(f * Rates)	(h)	(g - h)
	Prior Law	70,000	-	70,000	12,700	8,100	49,200	6,448	-	6,448
	TCJA	70,000	-	70,000	24,000	-	46,000	5,139	-	5,139

Taxable Income $50,000 - $100,000

Law	Wages, salaries, tips, etc. (a)	Business Income/ Loss (b)	Adjusted Gross Income (c)	Standard/ Itemized Deduction (d)	Personal Exemptions (e)	Taxable Inc (f)	Tax (g)	CTC Credits (h)	Federal Net Tax (i)
	Married Joint filer, one qualifying child, AGI $85,000, itemized deductions of $24,500								
	(a)	(b)	(a+b)	(d)	(e)	(c - d - e)	(f * Rates)	(h)	(g - h)
Prior Law	85,000	-	85,000	27,500	12,150	45,350	5,870	1,000	4,870
TCJA	85,000	-	85,000	24,000	-	61,000	6,939	2,000	4,939
	Married Joint filer, one qualifying child, AGI $85,000, itemized deductions of $24,500								
	(a)	(b)	(a+b)	(d)	(e)	(c - d - e)	(f * Rates)	(h)	(g - h)
Prior Law	105,000	-	105,000	15,000	12,150	77,850	10,940	1,000	9,940
TCJA	105,000	-	105,000	24,000	-	81,000	9,699	2,000	7,699
	Single filer, two qualifying children, AGI $85,000, itemized deductions of $15,000								
	(a)	(b)	(a+b)	(d)	(e)	(c - d - e)	(f * Rates)	(h)	(g - h)
Prior Law	85,000	-	85,000	15,000	12,150	57,850	10,201	1,000	9,201
TCJA	85,000	-	85,000	12,000	-	73,000	12,000	4,000	8,000
	Married Joint filer, two qualifying children, AGI $115,000, itemized deductions of $17,000								
	(a)	(b)	(a+b)	(d)	(e)	(c - d - e)	(f * Rates)	(h)	(g - h)
Prior Law	115,000	-	115,000	17,000	16,200	81,800	11,928	1,500	10,428
TCJA	115,000	-	115,000	24,000	-	91,000	11,899	4,000	7,899

Taxable Income $100,000 - $350,000

	Married Joint filer, two qualifying children, AGI $140,000, itemized deductions of $22,000								
	(a)	(b)	(a+b)	(d)	(e)	(c - d - e)	(f * Rates)	(h)	(g - h)
Prior Law	140,000	-	140,000	22,000	16,200	101,800	16,928	-	16,928
TCJA	140,000	-	140,000	24,000	-	116,000	17,399	4,000	13,399
	Married Joint filer, three qualifying children, AGI $195,000, itemized deductions of $33,000								
	(a)	(b)	(a+b)	(d)	(e)	(c - d - e)	(f * Rates)	(h)	(g - h)
Prior Law	195,000	-	195,000	33,000	16,200	145,800	27,928	-	27,928
TCJA	195,000	-	195,000	24,000	-	171,000	29,619	6,000	23,619
	Married Joint filer, two qualifying children, AGI $285,000, itemized deductions of $40,000								
	(a)	(b)	(a+b)	(d)	(e)	(c - d - e)	(f * Rates)	(h)	(g - h)
Prior Law	285,000	-	285,000	40,000	16,200	228,800	50,949	-	50,949
TCJA	285,000	-	285,000	24,000	-	261,000	51,219	4,000	47,219
	Married Joint filer, three qualifying children, AGI $365,000, itemized deductions of $50,000								
	(a)	(b)	(a+b)	(d)	(e)	(c - d - e)	(f * Rates)	(h)	(g - h)
Prior Law	365,000	-	365,000	50,000	11,325	303,675	75,430	-	75,430
TCJA	365,000	-	365,000	24,000	-	341,000	72,499	6,000	66,499
	Married Joint filer, no qualifying children, AGI $750,000, business loss $675,000, itemized deductions of $60,000 (for TCJA sim, taxpayer takes standard deduction plus $11,000 of other deductions still allowed under TCJA)								
	(a)	(b)	(a+b)	(d)	(e)	(c - d - e)	(f * Rates)	(h)	(g - h)
Prior Law	750,000	(675,000)	75,000	60,000	16,200	-	-	-	-
TCJA	750,000	(500,000)	250,000	35,000	-	215,000	40,179	-	40,179

TI $1M+

	Married Joint filer, two qualifying children, AGI $1,150,000, itemized deductions of $90,000 (for TCJA sim, taxpayer takes standard deduction plus $15,000 of other deductions still allowed under TCJA)								
	(a)	(b)	(a+b)	(d)	(e)	(c - d - e)	(f * Rates)	(h)	(g - h)
Prior Law	1,150,000	-	1,150,000	90,000	-	1,060,000	364,991	-	364,991
TCJA	1,150,000	-	1,150,000	39,000	-	1,111,000	350,449	-	350,449

Methodology

These estimates are the result of statistical modeling using the Comptroller's Statistics of Income (SOI) database. The SOI database is a taxpayer level database that is housed within the Bureau of Revenue Estimates (BRE). More detail is available in the annual reports as published on the Comptrollers website, www.marylandtaxes.gov.

In summary, the SOI database consists of actual individual tax returns; it is not the result of sampling. Those records are combined from federal tax records and State tax records. The data is cleansed to ensure that underlying data is reliable for decision making criteria. Sampling is done with the actual data to verify that cleansing is completed properly.

The actual data from the returns is modeled based on the new policy and then compared to the policy in place prior to the bill. The base year for the analysis is tax year 2014. Tax year 2014 is the most recent year for which the SOI is available. The federal data significantly lags the availability of State data; in addition, the preparation of the database elongates the process time. With that said, tax year 2014 provides a sound basis for comparison as recent tax years have been impacted by extraordinary economic and policy items; tax year 2014 may be as close to a "normal" year as we have on record.

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