

PURPOSE

This document describes the principal steps for using TaxSlayer (TS) to prepare Tax Year 2021 Maryland income tax returns. Its focus is on what District of Columbia AARP Tax-Aide preparers are most likely to encounter and when they must act to supplement what TS does automatically. The document does not cover all steps and details of the Maryland return (for example, it does not cover withholding and other payments) nor does it describe additional information that is sometimes required (for example, whether the taxpayer has health insurance). The omitted items generally are easily handled.

TaxSlayer entries roughly follow the order of the official Maryland resident income tax return, Form 502, which in turn is largely based on the Maryland income tax formula:

- Federal Adjusted Gross income (AGI)
 - *plus* Additions
 - *minus* Subtractions
- = Maryland Adjusted Gross Income
 - *minus* Deductions
 - *minus* Exemptions
- = Taxable Net Income (TNI)
- Tax Computation (TNI x State and Local tax rates)
 - *minus* Maryland tax credits
 - *plus* certain Contributions
- = Maryland income taxes and certain contributions

Note that while the third line of the formula has what are termed subtractions, other lines have amounts (deductions, exemptions, and credits) that are also subtracted from federal AGI. Do not confuse these different steps.

At the end of the document is a table showing some things to look for on W-2 and 1099 statements.

DC Tax-Aide preparers will find it helpful to have at hand the official Instructions for Form 502 (particularly for determining whether the taxpayer is eligible for subtractions and credits) as well as the *Maryland TaxSlayer User Guide Tax Year*

2021 that was prepared by Bill Hicks for the Montgomery County AARP Tax-Aide program. The latter document is much longer than this Guidance and is particularly useful for tax details and TS steps and quirks not mentioned here. Both are available in the Maryland Reference section of the TaxAideDC website.

BASIC INFORMATION

TS automatically carries over basic information from federal entries to the Maryland return. However, three adjustments require attention:

- **Local Jurisdiction:** When a Maryland address is entered at the beginning of the federal return, TS will bring up a page entitled “Maryland Return” with a dropdown menu for entering the county as well as the city or town where the taxpayer resided on December 31st of the tax year. This will allow calculation of a local income tax that will be automatically added to the state tax. (If the taxpayer no longer resided in Maryland at the end of the year, use the location where he or she last resided.)
- **Filing Status:** Maryland taxpayers usually must have the same filing status that they have on their federal return. However, married couples filing joint federal returns may file separate Maryland returns if they were domiciled in different states, counties, or cities or towns on the last day of the year. Returns for these couples might be done both ways to see which filing status yields the lower tax liability. The married filing separate option can be selected at the bottom of the Basic Information screen in the Maryland Return section of TS; it will lead to a worksheet on which the couple must allocate various items of income and deductions. NOTE: If separate returns are selected, they cannot be filed electronically.
- **Additional Questions:** When starting to work on the Maryland section, open up the Basic Information screen and answer the five questions listed there. (The “Maryland Medical Assistance Program” refers to Medicare, Medicaid, the Maryland Health Connection, and state programs that provide assistance with prescription drugs.)

GOING FROM FEDERAL TO MARYLAND ADJUSTED GROSS INCOME

Maryland starts the state income tax calculation with federal adjusted gross income (AGI) shown on federal form 1040; it then adds and subtracts certain

items to get to Maryland adjusted gross income. TS will automatically bring forward the federal AGI and *sometimes* calculate the additions and subtractions if relevant amounts have been entered in the Federal Section. For many items, new data must be entered.

NOTE: Before dealing with the additions and subtractions, TS has a link ("**INCOME**") to several screens on which amounts of certain types of income included in federal AGI must be entered if not already present. TS will carry these amounts to the first page of Form 502, where they will be shown for informational purposes.

Additions to federal AGI

Maryland has 25 possible additions to federal AGI. The following ones are most likely to arise in AARP work:

- **Tax-exempt interest from state and local obligations (bonds) issued other than in Maryland.** Entry required. Interest shown in box 8 of form 1099-INT is not taxed on federal returns. The interest is taxed on Maryland returns unless it arises from obligations issued by the State of Maryland or one of its jurisdictions or by certain other entities. (For a list of the latter, see the *Maryland TaxSlayer User Guide* mentioned earlier, pages 43-44). After entering the amount in box 8 on the Interest Income screen in the federal section, the taxable portion should be entered further down the screen via the box labeled "Taxable State Income"; clicking it leads to a secondary screen to be filled in.
- **Tax-exempt dividends from mutual funds investing in state and local obligations issued other than in Maryland.** Entry required. Similarly, dividends shown in box 11 of form 1099-DIV are not taxed on federal returns but they are taxed by Maryland unless the underlying investments are obligations issued by the State of Maryland or one of its jurisdictions. After entering the amount in box 11 on Dividend Income screen in the federal section, the taxable portion should be entered further down the screen via the box labeled "Taxable State Dividends." For mutual funds that invest in these obligations from many states one can identify the Maryland portion using data obtained from brokers or investment firms; they often are provided to the taxpayer along with form 1099-DIV.

- **State retirement pickups.** Entry required. Maryland taxes employment earnings withheld to fund state retirement and pension plans. Withheld amounts are not taxed on federal returns and so are not included as income in Box 1 on W-2 statements; instead they appear in box 14. To add them as Maryland taxable income, the amount should be entered in that box on the Wages and Salaries screen in the federal section and the code “MD PICKUP” selected. (Distributions from these plans are not taxed; see the subtraction on page 6.)

Other Possible Additions: In the Maryland Return section, the Additions to Income link has dropdown menus under “Select the Other Additions” that lists 13 of other possible additions; they are unlikely to arise in AARP work but should be looked at quickly.

At the top of the Additions to Income page is a box for entering non-Maryland tax-exempt interest; this should be left blank if the amount was entered in the federal section as described above. In addition, there is a box for Lump Sum Distributions from retirement plans requiring federal form 4972; returns with this form are out-of-scope.

Subtractions from federal AGI

Maryland has 52 possible subtractions from federal AGI. Some are automatically calculated by TS from amounts entered in the federal section, so no entry is needed:

- **Social Security and/or Railroad Retirement benefits included in federal AGI.** Automatically calculated.
- **State and local income tax refunds included in federal AGI.** Automatically calculated.
- **Child and dependent care expenses incurred while the taxpayer worked.** Automatically calculated from amounts entered on federal form 2441.

Four other possible subtractions appear on the page that appears when clicking on Subtractions from Income on the Maryland Return:

- **Pension exclusion.** Automatically calculated with some exceptions. This exclusion is allowed for income from pensions and for distributions from 401(a), 401(k), 403(b) and 457(b) plans. It is not allowed for IRAs, SEPs, Keogh plans, and foreign plans among others. It is limited to \$34,300 *minus* TOTAL Social Security and/or Railroad Retirement benefits received (i.e., both taxed and untaxed amounts). Taxpayers must be age 65 or over, totally disabled, or have a spouse who is totally disabled. Both spouses may claim this exclusion. **Calculation exceptions** (1) If the disabled taxpayer is under 65 and has distribution code 3 on form 1099-R, select “yes” in the box under “Totally Disabled” on the Pension Exclusion work page; (2) If a non-qualifying pension is included in line 4(b) of federal tax return form 1040, enter the amount in the appropriate box on the pension exclusion screen. Purchased or charitable gift annuities are examples. NOTE: No entry is required here for Social Security benefits though there are boxes for them.
- **Two-Income subtraction:** Automatically calculated but often entries and corrections are required. If both spouses have income subject to Maryland tax, up to \$1,200 can be subtracted depending on the *lesser* of the spouses’ incomes after all other subtractions have been taken into consideration. TS allocates the spouses’ respective incomes as entered in the federal section (where each was labeled as taxpayer, spouse, or joint) as well as their respective taxable social security and pension exclusions. However, TS does not allocate adjustments to federal income or Maryland additions, and it divides subtractions 50:50. These must be recalculated by hand and amounts entered on the page that comes up when Two-Income Subtraction is clicked. These steps most likely are needed when most income is from retirement or one taxpayer has little or no income (when TS may erroneously assign some). If both taxpayers have substantial Maryland taxable income the result is likely accurate. The *Maryland TaxSlayer User Guide* mentioned earlier, pages 15-18, describes additional steps that sometimes are needed.
- **Military Retirement Income Subtraction.** Entries required. Up to \$5,000 a year may be subtracted from this income if the qualifying individual has not yet attained age 55; the limit is \$15,000 if they are older. Qualifying individuals are defined in code “u” on page 9 in *Maryland 2021 State and Local Tax Forms and Instructions*. A surviving spouse or ex-spouse is eligible as well.

- **Pension exclusion for retired law enforcement or emergency service personnel.** Entries required. To qualify, individuals (1) must be age 55 or older on the last day of the year, (2) must not yet be age 65 or be totally disabled or have a spouse who is totally disabled, (3) must receive retirement income included in federal AGI from a 401(a), 403(b), or 457(b) plan, and (4) must have retirement income attributable to employment as a corrections officer, a law enforcement officer, or fire, rescue, or emergency services personnel of the United States, the State of Maryland, or a political subdivision of Maryland. Both spouses may claim this exemption though anyone who claims it cannot also claim the general Pension Exclusion described above. In the screen that comes up in TS, the applicable amount of exempt qualifying retirement income should be entered in the box by following instructions on pages 7-8 in *Maryland 2021 State and Local Tax Forms and Instructions*.

Other Possible Subtractions: Entries required. Clicking on Subtractions from Income on the Maryland Return also reveals a link entitled Other Subtractions from Income; it leads to a page with six opportunities to link to a dropdown menu from which one can identify other possible subtractions and then enter amounts. More than 40 other options are listed, a number of which might be relevant for AARP work. Some examples include:

- Up to \$5,000 for adoption expenses of parents (\$6,000 in the case of a special needs child)
- Up to \$1,500 for unreimbursed expenses of parents of foster children
- Pick-up contributions from boxes 14 and 17 of form 1099-R (This adjustment allows a subtraction from retirement income from plans for which contributions were earlier taxed as explained on page 3.)
- interest income and capital gains from U.S. Government obligations including savings bonds
- Up to \$250 in unreimbursed expenses of a K-12 classroom teacher (not including what was counted for the federal deduction)
- Up to \$2,500 for contributions to the Maryland Prepaid College Trust or the Maryland College Investment Plan.
- Up to \$2,500 for contributions to ABLE accounts

Preparers should skim down the entire list of options to see if any are relevant for the particular taxpayer with whom they are working. The official *Maryland*

2021 State and Local Tax Forms and Instructions has more precise wording and qualifications.

Finally, item “q” in the official list of subtractions (**unreimbursed travel expenses for certain volunteering**) is not included in the dropdown menu; to subtract it from federal AGI go to the following **INCOME MODIFICATIONS** link on the Maryland Return page and enter the appropriate amount of mileage on the page that comes up along with the other amounts requested.

After both additions and subtractions are taken into account, the resulting figure is Maryland Adjusted Gross Income. The figure affects calculation of the standard deduction and some other subsequent items.

MARYLAND DEDUCTIONS

Entries may be needed. Maryland taxpayers who use the standard deduction for their federal taxes must use the Maryland standard deduction on their Maryland returns. However, Maryland taxpayers who itemize their federal taxes may either itemize their Maryland taxes or use the Maryland standard deduction. If a married couple files separate Maryland returns, one spouse may itemize while the other may use the standard deduction. Note that these rules are different from the District of Columbia.

Unlike the District of Columbia, Maryland has not increased its standard deductions to the new federal amounts. For tax year 2021, the Maryland standard deductions are the following:

- Single taxpayers: 15% of Maryland adjusted gross income, with a minimum of \$1,500 and a maximum of \$2,350
- Heads of households, surviving spouses, and married couples filing jointly: 15% of Maryland adjusted gross income, with a minimum of \$3,050 and a maximum of \$4,700

Since these numbers are relatively low, some Maryland taxpayers will find it advantageous to itemize on their Maryland return even if doing so results in a higher federal tax liability from itemizing on their federal return. To compare the Maryland tax reduction with the federal tax increase, it is easy in TS to switch

between standard and itemized deductions on the federal return. In the federal deductions section, clicking on Itemized Deductions leads to a page listing various itemized deductions; by clicking on “Use Standard or Itemized deduction” a page then appears allowing the option of forcing itemized deductions when the standard deduction would be greater. This can be switched on and off.

Switching in this manner presumes that amounts for possible itemized deductions have already been entered in TS; this could be time-consuming if individual transactions have not yet been added together. It may be easier simply to make the following rough estimates:

1. Calculate the difference between possible itemized deductions on the federal form *except for state and local income taxes* and the relevant Maryland standard deduction amount (i.e., \$2,350 or \$4,700, assuming the maximum applies).
2. If the federal itemized deductions so calculated are less than the Maryland standard deduction amount, **STOP: itemizing will not help.**
3. If the federal itemized deductions so calculated are greater than the Maryland standard deduction amount, multiply the difference by 8% (i.e., 0.08).
4. On the federal form, calculate the dollar difference between the standard deduction and the itemized deduction, this time including state and local income taxes. Multiply the difference by the relevant federal *marginal* tax rate (e.g., 10%, 12%, or 22%, assuming the taxpayer does not have high income).
5. Compare step 3 (the tax savings on the Maryland return) with step 4 (the tax increase on the federal return). If step 3 is greater than step 4, itemizing will likely help the taxpayer. If step 3 is less than step 4, itemizing will likely not help.
6. **If in doubt or the numbers are close, enter the actual numbers in TS and switch forced itemization off and on.**

MARYLAND EXEMPTIONS

Automatically calculated. Unlike the federal government, Maryland still allows subtractions for personal and dependent exemptions. For Tax Year 2021, the amount is \$3,200 for each taxpayer and dependent as long as the taxpayers’ federal AGI was \$100,000 or less (single or married filing separately) or \$150,000 or less (married

couples filing jointly, heads of households, and qualifying widows and widowers). Amounts are then phased out in steps for higher incomes. An additional \$1,000 each applies if a taxpayer is age 65 or older or blind. An extra exemption of up to \$3,200 also applies if dependents are age 65 or older.

TAX COMPUTATION

After deductions and exemptions are subtracted from Maryland Adjusted Gross Income, the result is called Taxable Net Income. This is then multiplied by two separate tax rates, one for the Maryland State income tax and the other for the Local income tax for the jurisdiction where the taxpayer lives. These two taxes are then added together to obtain the Total income tax. This tax amount may be offset by one or more credits discussed below>

MARYLAND CREDITS

Maryland offers a number of tax credits. TS automatically calculates two credits that are important for low and moderate income families:

- **Maryland earned income credit.** No entry is required. The credit is 50% of the federal credit and is refundable.
- **Maryland poverty credit.** No entry is required. The credit is 5% of earned income if Maryland state tax exceeds 50% of the federal earned income credit and earned income and federal AGI are both below the poverty income guidelines. The credit is not refundable.

Other Possible Credits: Entries are required. TS has a credit link on the Maryland Return page; clicking on it leads to links for 15 possible credits. Only seven are in scope for AARP work

- Credit for taxes paid to another state
- Quality teacher incentive credit
- Long-term care insurance credit (this can be claimed only once)
- Venison donation—Feed the hungry organizations tax credit
- Student loan debt relief tax credit (requires certificate)
- Independent living tax credit (requires certificate)
- Energy storage system tax credit (requires certificate)

For each of these credits, tax preparers should refer to the official *Maryland 2021 State and Local Tax Forms and Instructions* for guidance on eligibility and amounts.

CERTAIN CONTRIBUTIONS

As part of the tax return, taxpayers have the option of making contributions to one or more of four listed charitable funds:

- Chesapeake Bay and Endangered Species Fund
- Development Disabilities Services and Support Fund
- Maryland Cancer Fund
- Fair Campaigning in Financing Fund

These contributions are then *added to the tax liability* for TY 2021. A deduction for the contributions might be claimed on the tax returns for TY 2022.

ADDITIONAL GUIDANCE FOR MARYLAND TAX RETURNS

IRS FORM	ITEM	ACTION IN TS	EXPLANATION
W-2	Amount appears in Box 14	Enter amount in Box 14 of W-2 entry screen and select MD PICKUP as the code	This step subjects the contribution to a MD state retirement plan to MD taxation
1099-INT	Amount appears in Box 8	Enter amount in Box 8 of 1099-INT entry screen and then insert <i>taxable</i> portion further down screen via "Taxable State Income" link.	This step taxes interest income from state and local obligations from jurisdictions other than MD

IRS FORM	ITEM	ACTION IN TS	EXPLANATION
1099-DIV	Amount appears in Box 11	Enter amount in Box 11 of 1099-DIV entry screen and then insert <i>taxable</i> portion further down screen via “Taxable State Dividends” link	This step taxes dividend income from funds that invest in state and local obligations from jurisdictions other than MD
1099-R	Box 7 code “3”	This code signifies the beneficiary is disabled; it may require an entry on the Pension Exclusion page.	Information is needed to determine whether some income might be excluded from MD taxation
1099-R	Box 7 codes D and F	These codes signify plan distributions that are not eligible for the Pension Exclusion; the amounts should be entered on that page	Information is needed so that the distributions are taxed.
1099-R	Boxes 14 and 17	Enter amounts in these boxes as a subtraction for distributions from plans with pick-up contributions	Information is needed so distributions are not taxed (since contributions earlier had been taxed)