COMPTROLLER of MARYLAND
SERVING THE PEOPLE

Brooke E. Lierman
*Comptroller*

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September 5, 2025

The Honorable Wes Moore
Governor
100 State Circle
Annapolis, MD 21401

The Honorable Bill Ferguson
President of the Senate
H-107 State House
Annapolis, MD 21401

The Honorable Adrienne Jones
Speaker of the House
H-101 State House
Annapolis, MD 21401

Dear Governor, President, and Speaker,

I am pleased to present the "60-day Report" from the Bureau of Revenue Estimates documenting the impact of P.L. 119-21 (One Big Beautiful Bill Act) on Maryland's revenue code. Required by Tax-General §10-108, this report outlines provisions of the Act that directly impact Maryland personal and corporate income tax revenues with the goal of helping policymakers, businesses, and Marylanders understand the revenue effects of recent federal legislation. It also aims to strengthen the revenue estimating process and serve as a guide for the Office of the Comptroller's revenue administration and legal divisions as they implement state revenue laws that are dependent on federal statutes.

At the midpoint of what has been the most tumultuous decade for revenues in a generation, Maryland faces several challenges to its revenue structure that are coming into view simultaneously. First, due to policy changes at the federal level, thousands of Marylanders have lost their jobs, and federal grants, contracts, and other payments flowing into Maryland are shrinking or are uncertain. This forces hard choices for hospitals, universities, nonprofits, and other institutions that provide much-needed support for our fellow Marylanders and provide a variety of revenue to the state.

Additionally, adjustments to tax laws increase uncertainty and add complexity for taxpayers, and statutory changes at both the federal and state level will affect the behavior of taxpayers, particularly higher-income earners who have significant and unpredictable income. These converging forces make revenue forecasting, which is already imprecise and difficult, even more complex and uncertain.

Still, Maryland stands out among many of our peer states. We benefit from the unique knowledge and expertise within the BRE, and we remain a best-practice state for revenue forecasting. I am confident in the Bureau's expertise, methods, and diligence under Director Robert Rehrmann and look forward to reviewing the updated forecast later this month.

As our state continues to face these challenges head-on in the weeks and months ahead, I am committed to continuing to provide reliable data and analysis to reduce uncertainty and help policymakers understand the impact these federal changes will have on individuals, families, businesses, and the state budget. I remain dedicated to working with Governor Wes Moore and the General Assembly to administer the tax code equitably and to support policies that build a more resilient and prosperous Maryland for all.

My best,

Brooke E. Lierman
Comptroller of Maryland

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**Brooke E. Lierman**
*Comptroller*

**Robert J. Rehrmann**
*Director*
*Bureau of Revenue Estimates*

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Dear Governor, President, and Speaker:

As required by Tax – General Article §10-108 of the Annotated Code of Maryland (Tax General §10-108), I am submitting this report on the impact of recent changes to the Internal Revenue Code (IRC) on Maryland tax revenues. On July 4, 2025, the President signed into law HR 1 (PL 119-21), the One Big Beautiful Bill (the Act or OBBB).

TG §10-108 requires that the Comptroller submit a report that outlines the changes in the Internal Revenue Code, the impact of those changes on State revenues, and determine whether the State will temporarily decouple from any of the IRC amendments.

OBBB is a significant modification of the U.S. tax system, making permanent many provisions of the 2017 Tax Cuts and Jobs Act (TCJA) (PL 115-97), introducing new tax benefits for individuals and businesses as well as modifying many other provisions. TCJA markedly impacted our State revenue structure, not only in dollar amount but by also introducing uncertainty over how its impacts would flow through to the Maryland tax system compared to its anticipated federal impact. It is likely that OBBB will follow a similar path.

I would like to thank the hard work of the BRE team that made this analysis possible with a special acknowledgement to Jennifer Brezler, David Farkas, Natalia Medynets, and Ben Uy as well as Chief Deputy Comptroller Andy Schaufele.

Please do not hesitate to contact me if you have any questions regarding this report.

Sincerely,

Robert J. Rehrmann

# Executive Summary

## Disclaimer and General Notes

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 OBBB. The legislation can lack detail and 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.

OBBB will also 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 directly impacting Maryland personal and corporate income tax revenues. The most significant provisions are included for discussion in this document; certain 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.

Lastly, uncertainty over the federal Act's impact is heightened as there will be a number of significant State and federal tax law changes taking effect over tax years 2025 and 2026. This includes legislation enacted in the 2025 legislative session establishing new brackets and rates and for certain high-income taxpayers a phaseout of itemized deductions and a capital gains surcharge.

All estimates within this document are subject to subsequent adjustments. This is the Bureau's initial assessment of the impact of OBBB on State revenues and our determination if federal amendments will trigger automatic decoupling. Similar to our experience with TCJA, our understanding of the bill's impact on the State will improve and change over time. The federal Joint Committee on Taxation determined that over 100 provisions will impact federal tax reviews. The Bureau reviewed each provision, prioritizing those provisions thought to have a potential significant impact on State revenues and will continue to review and estimate the impacts.

This work is solely the product of the Comptroller of Maryland. Official revenue estimates will be provided by the 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.

## OBBB Overview

The President signed the One Big Beautiful Bill (The Act or OBBB) Act (PL 119-21) into law on July 4, 2025. OBBB is a significant modification of the U.S. tax system, making permanent many provisions of the 2017 Tax Cuts and Jobs Act (TCJA) (PL 115-97), introducing new tax benefits for individuals and businesses as well as modifying many other provisions.

The most significant impact of OBBB is extending TCJA's significant but temporary personal income tax reductions. The Act also modifies existing provisions, creates new benefits, and terminates and/or limits existing benefits. The Act reduces corporate income taxes by modifying a number of existing corporate income tax benefits, altering the international tax regime established by TCJA, and establishing new tax benefits. Finally, the Act reduces federal estate and gift taxes by making permanent the increased federal exclusion amount enacted by TCJA.

The federal Joint Committee on Taxation estimates that the tax provisions will reduce federal tax revenues by $4.5 trillion over the next 10 years. Roughly three-quarters of this net cost is related to provisions primarily related to individuals with the remaining amount primarily business provisions. The bill also alters federal expenditures; in total the U.S. Congressional Budget Office estimates the net cost of the bill is $3.4 trillion over the next 10 years. The Act increases the federal debt limit by $5.0 trillion.

## Major individual income tax provisions of the Act include:

**Permanently extending, and for most provisions enhancing, the significant but temporary federal tax reductions enacted by TCJA:** These provisions include (1) reduced federal income tax rates and brackets; (2) the increase in the federal standard deduction; (3) the increase in the federal child tax credit; (4) and reductions in the alternative minimum tax.

In addition to these reductions, OBBB makes permanent the termination of the federal personal exemption.

**Establishing New Tax Benefits:** For tax years 2025 through 2028, the Act creates temporary deductions for up to specified amounts of qualified (1) tips; (2) overtime pay; and (3) automobile loan interest. The Act also creates an additional deduction for individuals aged 65 or greater. These benefits are subject to income specified phaseouts.

**Extending and Modifying Itemized Deductions:** TCJA limited the state and local tax (SALT) deduction to $10,000. OBBB increases the maximum exclusion to $40,000, subject to an income phasedown. The maximum exclusion reverts to $10,000 beginning in tax year 2030. The Maryland SALT deduction "workaround" for certain members of pass-through entities is unaffected by the Act.

OBBB also (1) establishes a new limitation on the maximum value of itemized deductions claimed by taxpayers in the top federal income tax bracket; (2) generally continues to repeal miscellaneous itemized deductions; and (3) modifies a number of other itemized deductions.

**Limiting and/or Terminating Existing Benefits:** These include "clean energy" tax credits established by the Inflation Reduction Act.

## Major business tax provisions of the Act include:

**Research or Experimental (R&E) Expenses:** The Act permanently reinstates full expensing for domestic R&E expenses, mostly reversing TCJA's requirement beginning in tax year 2022 to generally capitalize and amortize these expenses over 15 years. This provision is retroactive to tax year 2022 for certain companies.

**Significant Modification to International Tax Provisions enacted by TCJA:** TCJA established provisions designed to reduce the ability of US multinational corporations to shift profits to low-tax jurisdictions including Global Intangible Low-Taxed Income (GILTI). OBBB modifies several of the provisions enacted by TCJA and renames GILTI to the Net CFC Corporation Tested Income (NCTI).

**Qualified Production Activity:** Manufacturers and other businesses engaged in "qualified production activities" qualify for a new 100% bonus depreciation under Section 168(n) of the IRC.

**Bonus Depreciation:** The Act permanently allows 100% bonus depreciation under Section 168(k) of the IRC.

**Business Interest Limitation:** TCJA established Section 163(j) of the IRC which limited certain business interest deductions. OBBB generally increases the limitation and will increase on net interest deductions.

**Section 179:** Section 179 expensing allows mostly small- and medium-sized companies to immediately deduct certain expenses. OBBB expands the provisions by increasing its maximum value and phaseout.

**Qualified Business Income (QBI) Deduction:** OBBB extends and enhances the QBI deduction under Section 199(a) of the IRC. The QBI deduction reduces a taxpayer's income through two methods:

1. The QBI allows sole proprietorships, partnerships, S corporations and some trusts and estates to deduct certain business income; as well as,
2. A separate exclusion for certain income from Real Estate Investment Trusts and Publicly Traded Partnerships.

## Fiscal Impact

General fund revenues will decrease by $77.9 million in FY 2026 and by $71.4 million in FY 2027. The March Board forecast adjusted for legislative changes includes the State Budget assumption that the extension of TJCA will increase general fund revenues by $40 million in FY 2026. As a result, the net adjustment to the Board forecast is a decrease of $117.9 million in FY 2026. Special funds decrease by a total of $17.2 million in FY 2026 and by $50.1 million in FY 2027.

### Total Impact by Fund

| $ in Millions | FY 26 | FY 27 | FY 28 | FY 29 | FY 30 | FY 31 |
|---|---|---|---|---|---|---|
| **General Fund:** | ($77.9) | ($71.4) | ($29.7) | $21.8 | $80.2 | $132.1 |
| Assumed in Budget | $40.0 | $0 | $0 | $0 | $0 | $0 |
| **Net Effect** | **($117.9)** | **($71.4)** | **($29.7)** | **$21.8** | **$80.2** | **$132.1** |
| **Special Funds:** | | | | | | |
| TTF | ($12.5) | ($36.9) | ($30.5) | ($21.5) | ($12.5) | ($7.7) |
| HEIF | ($4.4) | ($12.6) | ($10.1) | ($6.9) | ($3.8) | ($1.6) |
| SEIF | ($0.2) | ($0.6) | ($0.5) | ($0.3) | ($0.2) | ($0.1) |
| **SF Total** | **($17.2)** | **($50.1)** | **($41.1)** | **($28.7)** | **($16.5)** | **($9.4)** |
| **Net State Revenues** | **($135.1)** | **($121.5)** | **($70.8)** | **($7.0)** | **$63.7** | **$122.7** |
| **Local PIT Revenues** | **($11.0)** | **$61.9** | **$69.5** | **$76.3** | **$87.7** | **$104.7** |
| **Total Revenues** | **($146.1)** | **($59.6)** | **($1.3)** | **$69.3** | **$151.4** | **$227.5** |

Source: Bureau of Revenue Estimates

Personal income tax revenues decrease modestly in tax year 2025 due to the increase in the SALT deduction. Beginning in tax year 2026, net revenues increase due to a reduction in deductions claimed for State income tax purposes. Accounting for the other provisions in the Act personal income tax revenues will decrease by $21.0 million in FY 2026 but increase by $88.2 million in FY 2027.The Bureau estimates that in the near-term corporate income tax revenues will decrease significantly, primarily due to amendments related to expensing. Notable corporate income impacts include amendments related to (1) R&E expenses; (2) a new qualified production property depreciation under Section 168(n); (3) the business interest deduction limitation; and (4) bonus depreciation under Section 168(k) which State law is decoupled from except for qualified manufacturers. In addition, corporate income tax revenues will likely be impacted to some degree by modifications to certain international tax provisions. Because the impact will flow to the State in a different manner than the federal corporate income tax there is significant uncertainty over its impacts.

### Total Revenue Impact by Source

| $ in Millions | FY 26 | FY 27 | FY 28 | FY 29 | FY 30 | FY 31 |
|---|---|---|---|---|---|---|
| Personal Income Tax | ($21.0) | $88.2 | $97.3 | $108.5 | $127.1 | $148.6 |
| Corporate Income Tax | (74.1) | (209.8) | (168.2) | (115.4) | (63.4) | (25.9) |
| **Total Impact** | **($95.1)** | **($121.5)** | **($70.8)** | **($7.0)** | **$63.7** | **$122.7** |
| **Assumed in Budget** | **$40.0** | **$0** | **$0** | **$0** | **$0** | **$0** |
| **Net Adjustment** | **($135.1)** | **($121.5)** | **($70.8)** | **($7.0)** | **$63.7** | **$122.7** |

Source: Bureau of Revenue Estimates

None of the Act's amendments related to non-business income will trigger automatic decoupling. The State will decouple from tax year 2025 and any applicable prior tax years for amendments to (1) R&E expenses; (2) the new qualified production property depreciation under Section 168(n); and (3) the business interest deduction limitation. In the absence of legislative action the State will conform to the federal amendments in tax years 2026 and beyond.

Most of the general fund revenue loss in the near-term is driven by lower corporate income tax revenues and this reflects a timing issue. OBBB allows companies to deduct certain expenses over a shorter period – these deductions would have occurred but over a longer period of time. As shown in the table above, corporate income tax revenue losses narrow over time and total a modest $25.9 million in FY 2031.

# 60-Day Report Statutory Requirements

On July 4, 2025, the President signed into law HR 1 (PL 119-21), the One Big Beautiful Bill (the Act or OBBB). Tax General §10-108 requires that the Comptroller submit a report that (1) describes the changes in the Internal Revenue Code (IRC); (2) estimates the State revenue impact of those changes; and (3) determines if the States temporarily decouples from the IRC amendments. As the Act was signed into law in July 2025, the State will temporarily decouple from any provision that the Bureau determines (1) impacts federal adjusted gross income (personal income tax) or federal taxable income (corporate income tax) and (2) in total will increase or decrease State revenues by at least $5 million in fiscal 2026. The State will decouple from the relevant amendment for tax year 2025 or earlier but conform to the IRC amendment for all tax years beginning with tax year 2026 in the absence of legislative action.

# OBBB Overview

OBBB is a significant modification of the U.S. tax system. The largest federal revenue impact is extending the Tax Cuts and Jobs Act (TCJA) (PL 115-97) significant but generally temporary personal income tax reductions that expired after tax year 2025. The Act also creates new benefits and modifies many other existing provisions. TCJA also on net reduced corporate income taxes; unlike the personal income tax provisions these were generally permanent. OBBB further reduces net federal corporate income taxes by modifying a number of existing corporate income tax provisions, altering the international tax regime established by TCJA, and establishing new tax benefits. Finally, the Act reduces federal estate and gift taxes by permanently extending the temporary increase in the federal exclusion amount enacted by TCJA.

The federal Joint Committee on Taxation estimates the tax provisions of the Act will reduce federal revenues by $4.5 trillion over the next 10 years. Roughly three-quarters of this net cost is related to provisions primarily related to individuals with the remaining amount due to primarily business provisions. The Act also alters federal expenditures; in total the U.S. Congressional Budget Office estimates the net cost of the bill is $3.4 trillion over the next 10 years. The Act increases the federal debt limit by $5.0 trillion.

### Estimated Income Tax Revenue Impacts

The tables below show the estimated total State revenue impact of OBBB and additional detail by fund source. General fund revenues decrease by a total of $149.3 million in FY 2026 and FY 2027 with a net decrease of $189.3 million after accounting for the revenue previously included in the State Budget. Special funds decrease by a total of $67.3 million over the same period. Local personal income tax revenues decrease by $11.0 million in FY 2026 but increase by $61.9 million in FY 2027. The impacts for local income tax 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 are not suitable for direct local government use. In addition to the local personal income tax revenue impact, a portion of the TTF revenue loss shown below will be borne by local jurisdictions through lower local highway user revenues.

### Total Impact by Fund

| $ in Millions | FY 26 | FY 27 | FY 28 | FY 29 | FY 30 | FY 31 |
|---|---|---|---|---|---|---|
| **General Fund:** | ($77.9) | ($71.4) | ($29.7) | $21.8 | $80.2 | $132.1 |
| Assumed in Budget | $40.0 | $0 | $0 | $0 | $0 | $0 |
| **Net Effect** | **($117.9)** | **($71.4)** | **($29.7)** | **$21.8** | **$80.2** | **$132.1** |
| **Special Funds:** | | | | | | |
| TTF | ($12.5) | ($36.9) | ($30.5) | ($21.5) | ($12.5) | ($7.7) |
| HEIF | ($4.4) | ($12.6) | ($10.1) | ($6.9) | ($3.8) | ($1.6) |
| SEIF | ($0.2) | ($0.6) | ($0.5) | ($0.3) | ($0.2) | ($0.1) |
| **SF Total** | **($17.2)** | **($50.1)** | **($41.1)** | **($28.7)** | **($16.5)** | **($9.4)** |
| **Net State Revenues** | **($135.1)** | **($121.5)** | **($70.8)** | **($7.0)** | **$63.7** | **$122.7** |
| **Local PIT Revenues** | **($11.0)** | **$61.9** | **$69.5** | **$76.3** | **$87.7** | **$104.7** |
| **Total Revenues** | **($146.1)** | **($59.6)** | **($1.3)** | **$69.3** | **$151.4** | **$227.5** |

Source: Bureau of Revenue Estimates

Personal income tax and corporate income tax revenues will decrease by $95.1 million in FY 2026 and $121.5 million in FY 2027. Accounting for the revenue assumed in the State Budget, the net forecast adjustment is a $135.1 million reduction in FY 2026 and $121.5 million reduction in FY 2027.

### Total Revenue Impact by Source

| $ in Millions | FY 26 | FY 27 | FY 28 | FY 29 | FY 30 | FY 31 |
|---|---|---|---|---|---|---|
| Personal Income Tax | ($21.0) | $88.2 | $97.3 | $108.5 | $127.1 | $148.6 |
| Corporate Income Tax | (74.1) | (209.8) | (168.2) | (115.4) | (63.4) | (25.9) |
| **Total Impact** | **($95.1)** | **($121.5)** | **($70.8)** | **($7.0)** | **$63.7** | **$122.7** |
| **Assumed in Budget** | **$40.0** | **$0** | **$0** | **$0** | **$0** | **$0** |
| **Net Adjustment** | **($135.1)** | **($121.5)** | **($70.8)** | **($7.0)** | **$63.7** | **$122.7** |

Source: Bureau of Revenue Estimates

# Personal Income Tax

The Act's most significant federal personal income tax impact is the extension, and often enhancement, of the temporary income tax reductions enacted by TCJA. TCJA's provisions related to individuals generally expired after tax year 2025. In addition to extending, OBBB also modifies key provisions enacted by TCJA, establishes new tax benefits, and limits and/or terminates other tax benefits including "clean energy" tax incentives enacted by the Inflation Reduction Act of 2022 (P.L. 117-169).

None of the Act's amendments to provisions that are primarily for individuals will trigger automatic decoupling. A portion of certain business tax provisions that primarily impact the corporate income tax will also impact personal income tax revenues. This includes a new bonus depreciation provision for qualified production property and which the State will temporarily decouple from as discussed in the corporate income tax section. The net change in deductions claimed by individuals compared to what is assumed in the March Board forecast is the largest impact on personal income tax revenues. Other provisions that impact personal income tax revenues include the modification and extension of opportunity zones, the modification of the small business stock gain exclusion, and modification of partnership payments and property sales.

OBBB creates new temporary deductions up to specified maximum amounts for qualified (1) income from tips; (2) income from overtime pay; and (3) interest paid on an automobile loan. The Act also establishes an additional deduction for individuals aged 65 years or greater. These provisions will not flow through to the State income tax and therefore will not have a revenue impact as discussed below.

Personal income tax revenues will decrease by an estimated $21.0 million in FY 2026 but increase by $88.2 million in FY 2027. The State budget assumes that the extension of TCJA will increase personal income tax revenues by $40.0 million in FY 2026. After accounting for the assumed revenue increase in the Budget, the net decrease to the personal income tax forecast will be $61.0 million in FY 2026.

**PIT Revenue Impact**
**Total Funds**

| $ in Millions | FY 26 | FY 27 | FY 28 | FY 29 | FY 30 | FY 31 |
|---|---|---|---|---|---|---|
| Deductions | ($1.8) | $141.2 | $159.2 | $166.0 | $176.0 | $204.2 |
| Qualified Production Property - 168(n) | (9.8) | (32.8) | (32.3) | (27.0) | (17.2) | (5.8) |
| Other Provisions | (9.4) | (20.2) | (29.6) | (30.5) | (31.7) | (49.8) |
| **Total** | **($21.0)** | **$88.2** | **$97.3** | **$108.5** | **$127.1** | **$148.6** |

Note: Impact does not reflect $40 million increase for FY 2026 assumed in the State Budget
Source: Bureau of Revenue Estimates

The table below details the personal income tax impact by fund. General fund revenues will decrease by $21.0 million in FY 2026 and increase by $89.5 million in FY 2027. Transportation Trust Fund (TTF) revenues materially decrease beginning in FY 2027 due to the Act's modifications to certain capital gains.

**PIT Revenue Impact by Fund**

| $ in Millions | FY 26 | FY 27 | FY 28 | FY 29 | FY 30 | FY 31 |
|---|---|---|---|---|---|---|
| **State** | | | | | | |
| General Fund | ($21.0) | $89.5 | $99.3 | $110.3 | $128.9 | $151.9 |
| TTF | 0.04 | (1.3) | (2.0) | (1.9) | (1.8) | (3.3) |
| **Total** | **($21.0)** | **$88.2** | **$97.3** | **$108.5** | **$127.1** | **$148.6** |
| **Local** | **($11.0)** | **$61.9** | **$69.5** | **$76.3** | **$87.7** | **$104.7** |
| **Total** | **($32.0)** | **$150.2** | **$166.9** | **$184.7** | **$214.9** | **$253.4** |

Note: Does not reflect $40 million assumed in the State Budget for FY 2026
Source: Bureau of Revenue Estimates

## Modifications to Standard and Itemized Deductions

### *TCJA's Shift to the Standard Deduction Benefitted State and Local Governments*

TCJA significantly impacted the State income tax. Notably, there was a large shift to taxpayers who claim the standard deduction rather than itemizing deductions. Given the lower relative value of the State standard deduction, this shift increased State and local income tax revenues. In tax year 2023, about 20% of taxpayers itemized deductions for State income tax purposes, compared to 53% in the year before TCJA. Although only 20% of taxpayers itemize, their deductions ($18.4 billion) still comprise about 70% of the $26.6 billion in standard and itemized deductions claimed. In recent tax years mortgage interest has been the largest component of itemized deductions.

High-income taxpayers have more deductible expenses – mortgage interest, property taxes – and make more charitable contributions. As a result, most lower-income taxpayers claim the standard deduction with most higher-income taxpayers itemizing deductions. A surprising number of high-income taxpayers claim the standard deduction; however, as about one-quarter of Maryland residents with federal adjusted gross income of $1 million or more claimed the standard deduction for State income tax purposes. As discussed below, legislation enacted in the 2025 session will decrease the total amount of itemized deductions claimed by high-income taxpayers beginning with tax year 2025.

Given TCJA's personal income tax provisions expired at the end of this year, it created uncertainty over the impact on State and local income tax revenues that would ultimately depend on whether the US Congress would allow it to sunset, extend it without modifications, or extend it with modifications.

### *Most of TCJA's State and Local Revenue Increase Disappeared with its Termination*

In the absence of federal action, several key federal income tax provisions related to deductions would have reverted to tax year 2017 law causing many taxpayers to "shift back" to itemizing deductions. State and local governments would have "lost" the additional increase in revenues given TCJA terminated after tax year 2025. The March Board forecast reduced the personal income tax forecast modestly in FY 2026 and by about $300 million annually beginning in FY 2027, reflecting the termination of TCJA. The March Board forecast also assumes that the expiration of TCJA and its impact on taxpayers who elect to itemize also decreases local income tax revenues modestly in FY 2026 and by about $200 million annually beginning in FY 2027. The actual impact on local revenues and spending is less clear and dependent on the assumptions each local budget incorporates, if any, about the termination of TCJA.

### *Recent State Tax Legislation Creates Uncertainty to Our Estimates*

Legislation in the 2025 session increased personal income tax revenues including changes enacted by the Budget Reconciliation and Financing Act (BRFA) of 2025 (Chapter 604). This legislation is estimated to increase personal income tax revenues by about $700 million in FY 2026 primarily increasing the State's top marginal tax rates, imposing a 2% surcharge on capital gains, and phasing out itemized deductions for certain high-income taxpayers. The Bureau incorporated the BRFA's provisions in its tax simulation on historical data but the recent legislation's interaction with OBBB introduces an additional level of uncertainty to our estimates particularly since the BRFA raises most of its net revenue from a limited number of high-income taxpayers. In addition to the assumed revenue increase from the BRFA, the State Budget also assumes that FY 2026 personal income tax revenues will increase by $40 million due to the extension of TCJA.

### *Notable Modifications to Deductions*

Significant provisions related to deductions enacted by OBBB include:

- Permanently extending the increased value of the federal standard deduction enacted by TJCA;
- Providing a modest one-time bump in the value of the federal standard deduction in tax year 2025;
- Temporarily increasing the maximum state and local taxes (SALT) paid deduction to $40,000 subject to a phasedown based on income;
- Leaving unchanged Maryland's SALT deduction "workaround" for certain members of pass-through entities;
- Generally continuing TCJA's elimination of miscellaneous deductions; and
- Making modest adjustments to other itemized deductions.

### *Temporary Increase in SALT Deduction*

Tax-General §10-218 specifies that a taxpayer who itemizes for federal income tax purposes can also include state and local taxes paid in their total State itemized deductions, minus the amount claimed as income taxes paid. Prior to TCJA, there was no limitation on the federal SALT deduction. TCJA limited to $10,000 the maximum deduction value in tax years 2018 through 2025 after which no limit would apply. The SALT federal deductions claimed by Maryland tax returns fell from $18.8 billion in tax year 2017 to $5.7 billion in tax year 2018.

OBBB (1) temporarily increases the SALT deduction to $40,000 in tax year 2025 and (2) reduces, but not below $10,000, the maximum value of the deduction by 30% of the amount of adjusted gross income in excess of $500,000. The maximum deduction and income phasedown increase by 1% each year through tax year 2029. Beginning in tax year 2030, the maximum deduction returns to the TCJA limitation of $10,000 without regard to income. The table below summarizes the SALT deduction prior to TJCA, during TCJA, and under current federal law.

| | | | OBBB | | | | | |
|---|---|---|---|---|---|---|---|---|
| Component | Pre-TCJA | TCJA | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
| Maximum Value | no limit | $10,000 | $40,000 | $40,400 | $40,800 | $41,200 | $41,600 | $10,000 |
| Income Phasedown Begins | *n/a* | *n/a* | $500,000 | $505,000 | $510,100 | $515,200 | $520,400 | *n/a* |

Notes: Maximum value cannot be reduced beyond $10,000
Married filing separately is equal to 50% of the values shown in tax years 2025-2029
Source: Bureau of Revenue Estimates

In response to TCJA's limitation on the SALT deduction many states including Maryland enacted legislation creating a SALT deduction "workaround" for members of certain pass-through entities (PTEs). PTEs are allowed to pay State and local taxes at the entity level (the PTE tax) and their members deduct their respective share of taxes without regard to the $10,000 limitation. The IRS in November 2020 approved these state-level workarounds.

Initial versions of OBBB proposed to limit this workaround but the enacted legislation does not impact the PTE tax. However, increasing the SALT deduction may impact the timing of taxes paid for State income tax purposes as discussed below.

### *High-income Itemized Deduction Phaseout*

Prior to TCJA, certain high-income taxpayers were required by the Pease limitation to reduce the value of specified itemized deductions claimed. TCJA suspended this rule for tax years 2018 through 2025 but the limitation would have returned in tax year 2026. OBBB permanently repeals the Pease limitation and replaces it with a new limitation on all itemized deductions beginning with tax year 2026. This overall limitation is imposed after all individual itemized deductions are calculated – including the limitation applied to the SALT deduction.

The limitation applies to taxpayers with incomes greater than the top 37% federal tax bracket – in tax year 2025 this is equal to $626,350 ($751,600 joint returns). The reduction is equal to the lesser of 2/37$^{th}$ of the total of (1) itemized deductions claimed; or (2) the total of taxable income plus itemized deductions in excess of the top bracket threshold. The new overall limitation on federal itemized deductions effectively caps the tax benefit at 35% of the amount deducted.

A Maryland taxpayer will first apply the federal itemized phase out, after which a taxpayer will further limit their applicable State itemized deductions pursuant to the State phase out enacted by the BRFA of 2025. The federal phase out will be less impactful than the State, as it applies to higher-incomes and has a lower phase out value, but its effect will be cumulative.

### *Miscellaneous Deductions*

Prior to TCJA, taxpayers could claim certain miscellaneous deductions, some of which could only be claimed in excess of 2% of federal adjusted gross income. TCJA suspended these deductions for tax years 2018 through 2025. OBBB permanently eliminates these deductions except for certain educator expenses. Educator expenses in tax year 2025 will return to an "above the line" adjustment to income (deduction) as before TCJA. Starting in tax year 2026 that adjustment is repealed and standard deductors can no longer deduct educator expenses. The educator expenses will only be deductible as an itemized deduction but the amount deducted is no longer limited. This itemized deduction benefit will flow through to the State income tax.

### *Other Changes to Itemized Deductions*

Beginning with tax year 2026, OBBB makes modest direct changes to all other itemized deductions except the deduction for medical expenses, which remains unchanged. These modifications include:

- **Charitable Contributions:** In addition to the corporate income tax, OBBB establishes a floor for individual charitable contributions. Only contributions in excess of 0.5% of federal adjusted gross income can be deducted; and
- **Mortgage Interest:** OBBB extends TCJA's limitations on the deduction but now allows deductions for private mortgage insurance (PMI), which could last be claimed in tax year 2021.

### *Deduction Changes – Fiscal Impact*

Estimating the fiscal impact of OBBB's deduction changes primarily requires (1) identifying State taxpayers who currently claim the standard deduction but will now find it more advantageous to itemize a greater amount of deductions; and (2) estimating the net increase in itemized deductions claimed by taxpayers who currently itemize. This requires federal data on Maryland taxpayers – tax year 2022 is the last of data delivered by the IRS. However, the extract file with late filers, many of whom are high-income taxpayers, has not been delivered. Furthermore, this tax year data will not include information on the potential itemized deductions that can be claimed under current federal law by taxpayers who currently claim the standard deduction and will not inform of the potential shift to the itemized deductions.

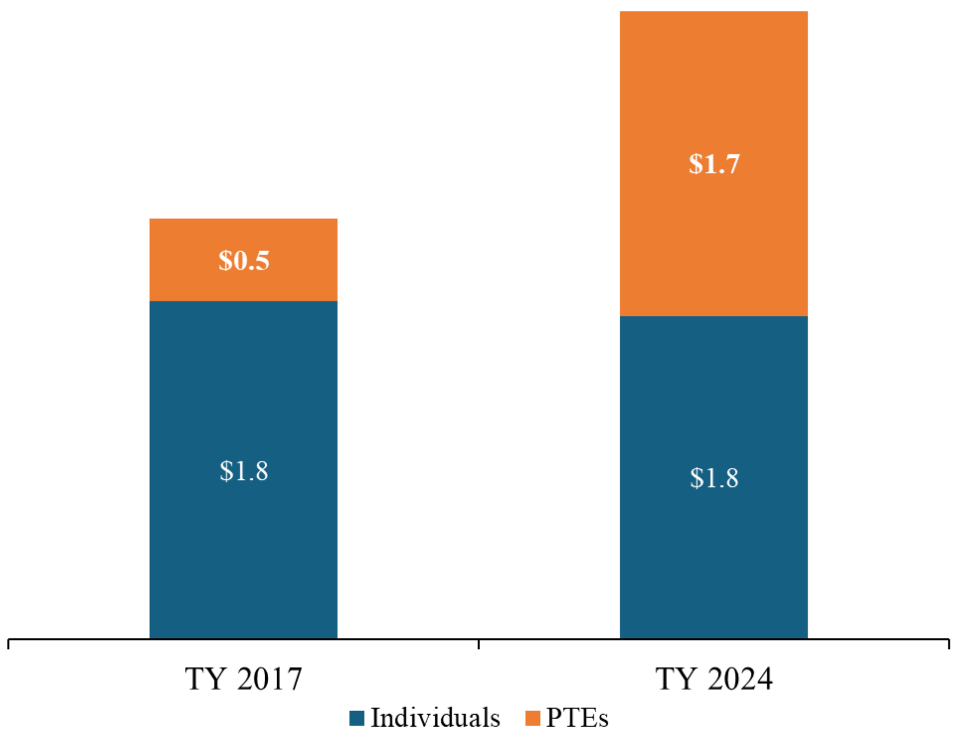
The Bureau analyzed tax year 2017 and 2018 data to identify taxpayers who will now itemize deductions given the increased SALT deduction. The March Board forecast assumed current federal law at the time – TCJA deduction changes increased tax year 2025 revenues by a little more than $300 million. However, given TCJA's termination the Board forecast did not include this revenue increase for tax years 2026 and beyond.

OBBB alters tax year 2025 primarily by generally increasing the SALT deduction to $40,000. As a result, tax year 2025 revenues will decrease modestly compared to the March forecast. However, beginning in tax year 2026 OBBB will increase State revenues as itemized deductions will be lower compared to pre-TCJA amount assumed in the March forecast. FY 2026 reflects most of the modest decrease in tax year 2025 and a portion of the increase in tax year 2026. FY 2027 reflects portions of the increase in both tax year 2026 and tax year 2027. Therefore, FY 2026 revenues will only decrease by $1.8 million but FY 2027 revenues will increase by $141.2 million.

***Potential Timing Impacts from the PTE Tax and SALT Deductibility***

The chart below compares the estimated payments that were paid by individuals and PTEs in tax year 2017. The individual SALT deduction limitation and SALT workaround due to TCJA resulted in a significant shift in estimated payments to PTEs. Payments by individuals have been roughly flat over time, as a result the share of estimated payments made by PTEs has increased from about one-fifth to roughly one-half.

**Estimated Payments by Source**
**Tax Years 2017 – 2024**
**($ in Billions)**




Source: Bureau of Revenue Estimates

As discussed above, OBBB does not limit the State's SALT deduction "workaround" or the PTE tax. OBBB does increase the SALT deduction for individuals. When the PTE tax was established there was likely a temporary acceleration of revenues that occurred when estimated payments shifted from individuals to pass-through entities (both electing and non-electing PTEs). As long as this pattern continues there likely will not be a significant corresponding decrease within a fiscal year. To the extent individuals no longer utilize the workaround there may be a change or delay in the recognition in personal income tax revenues and this would cause revenue decreases in the near-term but a corresponding increase in later periods.

## Other PIT Provisions

The Bureau estimates that several other provisions will modestly impact State revenues including new provisions related to partnerships and expanded capital gains tax benefits related to investments in federal opportunity zones and qualified small businesses.

### *Disguised Partnership Payments and Property Sales*

The Act removes the IRS's exclusive reliance on regulations to determine the difference between guaranteed payments versus a true distributive share or an outside transaction. This likely will allow additional IRS scrutiny of partner compensation and the differences between guaranteed payments that are deductible versus disguised sales of properties to avoid taxation. This provision does not impact the direct score of liability but affects partner compensation agreements, tax planning, and recordkeeping.

### *Permanent Renewal and Modification of Opportunity Zones*

The Act makes permanent the use of Federally Qualified Opportunity Zones (QOZ) for capital investment on a rolling 10-year basis. Zone requirements are tightened as the tax benefits increase for qualified investments in these areas. States will have the ability to nominate zones for inclusion in the program subject to US Treasury approval every 10-years and zones will have to maintain low-income standards to stay within the acceptable ranges for qualification. Rural zones are also subject to more stringent standards but allow for a 30% exclusion whereas non-rural zones are only eligible for a 10% exclusion. Gains from QOZ are subject to a step-up in basis and potential 100% exclusions on the gains held between 10 and 30 years. However, additional gains after 30 years are subject to capital gains taxes. Contiguous zones are no longer considered as meeting program qualifications.

In addition, Chapter 211 of 2019 established the Opportunity Zone Enhancement Program. Administered by the Department of Commerce, the program provides enhanced State tax incentives for qualifying businesses within an opportunity zone. Most of the enhanced incentives offered by the program are subject to an annual maximum limitation on the amount of credits that can be awarded. Therefore, the extension of the federal program is expected to modestly impact State revenues.

### *Expansion of Qualified Small Business Stock Gain Exclusion*

The Act expands the Qualified Small Business Stock (QSBS) Exclusion by allowing investors to realize tax benefits earlier, increasing the exclusion amount, and allowing investments in companies with larger assets to qualify. Specifically, the Act (1) increases the asset size limitation from $50 million to $75 million with future values indexed for inflation; (2) reduces the minimum holding period from 5-years to 3-years; and (3) increases the exclusion amount from $10 million to $15 million, also indexed for inflation.

## MAJOR OBBB Provisions that Do Not Materially Impact Revenues

### *New Benefits*

In tax years 2025 through 2028, OBBB creates deductions from net taxable income up to specified maximum amounts for qualified (1) income from tips; (2) income from overtime pay; and (3) interest paid on an automobile loan. The Act also establishes an additional deduction for individuals aged 65 years or greater.

The provisions will be implemented in the same manner as during tax years 2020 and 2021 when filers could claim charitable contributions on the front of Form 1040 as a "below the line" deduction for filers claiming the standard deduction. The IRC as amended by OBBB does not define these deductions as itemized deductions. None of these deductions will reduce federal adjusted gross income and will not flow through to the Maryland tax return. To date, the only guidance issued by the IRS has been that the benefits will be available to both itemizers and those who take the standard deduction. If the IRS implements the deductions differently than anticipated, for example including these benefits as Schedule A itemized deductions, general fund revenues will decease by about $90 million annually.

### *Tip Income*

Employees and self-employed individuals may deduct qualified tips received in occupations that are designated by the IRS as customarily and regularly receiving tips. The maximum deduction is $25,000 and for the self-employed the deduction may not exceed the individual's net income from the trade or business that generated the tips. The deduction phases out for taxpayers with adjusted gross income greater than $150,000 ($300,000 for joint filers). Taxpayers filing married filing separately may not claim the benefit.

By October 2, 2025, the IRS must publish a list of occupations that qualify for the benefit.

### *Overtime Pay*

Individuals who receive qualified overtime compensation may deduct the pay that exceeds their regular rate of pay that is required by the Fair Labor Standards Act. For example, if an employee earns $40 per hour in regular wages and $60 per hour in overtime only the additional $20 per hour in overtime wages will qualify for the deduction. The maximum deduction is $25,000 ($12,500 for single filers). The deduction phases out for taxpayers with adjusted gross income greater than $300,000 ($150,000 for single filers). Taxpayers filing married filing separately may not claim the benefit. In tax year 2025, the IRS will provide transition relief for taxpayers claiming the deduction and for employers and other payors subject to the new reporting requirements.

### *Automobile Loan Interest*

Taxpayers may deduct interest paid on a loan used to purchase a qualified vehicle, provided the vehicle is purchased for personal use and meets other eligibility criteria. Lease payments and interest paid on loans for commercial and business use do not qualify. The maximum deduction is $10,000 and phases out for taxpayers with adjusted gross income greater than $200,000 ($100,000 for single filers).

The interest must be paid on a loan that originated after December 31, 2024 and is used to purchase a new vehicle. A qualified vehicle is a car, minivan, van, SUV, pick-up truck or motorcycle, with a gross vehicle weight rating of less than 14,000 pounds, and with a final assembly in the United States.

### *Deduction for Seniors*

Individuals who are aged 65 and over may claim a new deduction of $6,000 in addition to the current deductions for seniors under federal law. The deduction phases out for taxpayers with adjusted gross income greater than $150,000 ($75,000 for single filers). Taxpayers filing married filing separately may not claim the benefit.

This provision will not alter the value of the regular personal exemption or additional personal exemption for seniors allowed under the State income tax and will not impact revenues.

### *Trump Accounts*

OBBB creates a new savings account for certain children. For children who are born between calendar 2025 and 2028 these accounts will automatically be established and include a one-time deposit of $1,000 from the federal government. Parents, employers, non-profits, and state and local governments can also contribute up to specified annual limits. The Act specifies that accounts will be established beginning in July 2026. These new accounts are not expected to materially impact State revenues in the near-term. Out-years may be impacted to the extent companies contribute to the accounts and this results in a net increase in total company deductions.

### *Direct File*

Direct File is a recent IRS service that allows eligible taxpayers to prepare and file their tax return online, for free, including access to help from a dedicated IRS Direct File customer support representative. For tax year 2024, the program was available to residents of 24 states including Maryland. OBBB appropriates $15.0 million for the Treasury Department to establish a task force to determine the cost of replacing the IRS's Direct File program with a public-private partnership. The report is due in early October.

# Corporate Income Tax

TCJA made significant changes to the federal corporate income tax including a reduction in the federal rate from 35% to 21%. These amendments resulted on net reduced federal corporate income tax revenues and unlike the personal income tax the corporate income tax provisions were generally permanent. The Bureau estimates that even though TCJA reduced federal revenue it led to an increase in State corporate income tax revenues. The March Board forecast incorporates the assumption that TCJA increased corporate income tax revenues by a little over $200 million in FY 2026.

OBBB establishes new benefits but also modifies certain TCJA provisions. Three amendments will trigger automatic decoupling – full expensing of R&E expenses, a new depreciation bonus for qualified production property, and modification of the business interest deduction limitation. Other provisions on net have a minor impact. Total revenues decrease by $74.1 million in FY 2026 and by $209.8 million in FY 2027 after accounting for the temporary decoupling.

**CIT Revenue Impact**
**Total Funds**

| $ in Millions | FY 26 | FY 27 | FY 28 | FY 29 | FY 30 | FY 31 |
|---|---|---|---|---|---|---|
| R&E Expenses | ($28.8) | ($85.8) | ($54.5) | ($31.1) | ($15.2) | ($9.3) |
| Qualified Production Property - 168(n) | (29.3) | (98.5) | (97.0) | (81.1) | (51.6) | (17.4) |
| Businesss Interest Limitation | (7.4) | (24.1) | (22.4) | (21.0) | (20.9) | (21.5) |
| Bonus Depreciation - 168(k) | (12.2) | (10.3) | (9.0) | (6.8) | (4.8) | (3.6) |
| Other Provisions | 3.5 | 8.9 | 14.7 | 24.5 | 29.1 | 25.9 |
| **Total** | **($74.1)** | **($209.8)** | **($168.2)** | **($115.4)** | **($63.4)** | **($25.9)** |

Source: Bureau of Revenue Estimates

Of the total revenue decrease, general fund revenues will decrease by $56.9 million in FY 2026 and by $161.0 million in FY 2027. Special funds decrease by a combined $17.2 million in FY 2026 and by $48.8 million in FY 2027.

**CIT Revenue Impact by Fund**

| $ in Millions | FY 26 | FY 27 | FY 28 | FY 29 | FY 30 | FY 31 |
|---|---|---|---|---|---|---|
| General Fund | ($56.9) | ($161.0) | ($129.0) | ($88.6) | ($48.7) | ($19.9) |
| TTF | (12.6) | (35.6) | (28.5) | (19.6) | (10.8) | (4.4) |
| HEIF | (4.4) | (12.6) | (10.1) | (6.9) | (3.8) | (1.6) |
| SEIF | (0.2) | (0.6) | (0.5) | (0.3) | (0.2) | (0.1) |
| **Total** | **($74.1)** | **($209.8)** | **($168.2)** | **($115.4)** | **($63.4)** | **($25.9)** |

Source: Bureau of Revenue Estimates

## Provisions that Trigger Automatic Decoupling for Tax Year 2025

### *Full Expensing of Domestic Research and Experimental Expenditures*

Prior to TCJA, businesses could generally deduct qualified R&E expenses in the year in which they were incurred. TCJA generally required businesses to capitalize and amortize R&E expenditures – domestic expenses over five years and foreign expenses over fifteen years. TCJA delayed this requirement until tax year 2022.

OBBB generally reverses TCJA's requirement by allowing, at the option of the taxpayer, the full expensing of qualifying domestic research expenses. A taxpayer can now deduct the full amount of R&E domestic expenditures in the year they were incurred rather than spread the deductions over a five-year period as previously required by TCJA. This change is retroactive to tax year 2022 for certain small businesses and special rules also apply for expenses incurred in tax years 2022 through 2024. To the extent taxpayers elect full expensing, deductions which would have been claimed eventually will be pulled forward. As a result, the negative revenue impact is much larger in the near term than in the out years. The automatic decoupling from the retroactive provisions will also prevent operating expenditure increases at the Comptroller's Office the Agency would not be required to process amended returns for these tax years.

Since the absolute value of the impact is greater than $5 million, automatic decoupling is triggered beginning with tax year 2025 and any prior tax year. In tax year 2026, corporate income taxes will decrease by an estimated $95.9 million. By tax year 2031 the estimated revenue impact is a loss of $8.6 million. On a fiscal year basis, the amendment is estimated to reduce FY 2026 revenue by $28.8 million after decoupling. There is a revenue impact in FY 2026 despite decoupling in tax year 2025 as a portion of tax year 2026 revenue will be collected in FY 2026. FY 2027 revenue is estimated to be reduced by $85.8 million, as shown above.

R&D intensive industries will be most impacted by these changes. Based on an initial analysis of corporate income tax data this includes the life sciences, aerospace and defense industries as well as technology companies.

### *Special Depreciation Allowance for Qualified Production Property*

The Act creates a new special temporary depreciation allowance for qualified production property under Section 168(n) of the IRC. Generally, qualified production property is a domestic manufacturing, refining, agricultural production or chemical production facility. This property was previously not otherwise eligible for full expensing due to its long estimated useful life. Among other qualifications, the property must be placed in service before January 1, 2031.

As discussed below, the State is decoupled from bonus depreciation under Section 168(k) except for qualified manufacturers. Since the new bonus depreciation is enacted under Section 168(n) and not under Section 168(k), the new amendment triggers decoupling due to its estimated FY 2026 fiscal impact.

Similar to other full expensing allowances, this provision pulls forward deductions that would have occurred in later years under typical depreciation schedules. As a result, its revenue impact diminishes over time, with the tax year 2031 impact expected to be an increase of $0.2 million.

As shown in the table above, after decoupling from the amendment FY 2026 revenues will decrease by $29.3 million and FY 2027 revenues will decrease by $98.5 million.

### *Modification of Limitation on Business Interest Deduction*

OBBB modifies an existing limitation on business interest in Section 163(j) of the IRC. That section limits the interest expense that a business can deduct to 30% of Adjusted Taxable Income (ATI) plus business interest income. OBBB adjusts the calculation of ATI by allowing certain non-cash expenses to be added back to ATI. In the aggregate, this increases the dollar amount of interest expenses that businesses can deduct.

The modification triggers decoupling – it is estimated that tax year 2025 revenues would have decreased by $27.7 million. After decoupling, FY 2026 revenue will decrease by $7.4 million and FY 2027 revenue is estimated to decrease by $24.1 million, as detailed above.

## Provisions that Do Not Trigger Automatic Decoupling

### *Full Expensing for Certain Business Property*

OBBB permanently allows for full expensing, also known as bonus depreciation, for certain business property. TCJA allowed bonus depreciation for this property type on a temporary basis for property purchased before tax year 2027. OBBB permanently re-instates bonus depreciation for property purchased after January 19, 2025.

Maryland law is already decoupled from bonus depreciation for all businesses except for qualified manufacturers. Chapter 149 of 2017 conformed the Maryland income tax to the federal tax treatment of Section 179 expensing and Section 168(k) bonus depreciation for qualified manufacturers. This applies to property placed in service beginning on January 1, 2019.

Most businesses will not be able to take advantage of the increased federal benefit for State income tax purposes given the State only allows manufacturers the additional benefit. However, federal conformity for manufacturers means some impact will flow through with revenues decreasing by $12.2 million in FY 2026 and by $10.3 million in FY 2027, as shown above.

OBBB also increases the deduction limit and phaseout threshold for Section 179 expensing. Increased expensing by manufacturers is expected to modestly decrease revenues and is included in the other provisions total shown above.

***International Tax Provisions***

The next three provisions relate to the shifting of profits to overseas corporate affiliates in lower tax rate jurisdictions to reduce US taxable income. In general, the intent of these provisions is to reduce the incentive for corporations to shift profits overseas to lower tax jurisdictions. They do so by identifying or classifying certain income earned by related foreign corporations as subject to a minimum effective tax.

OBBB reduces the tax burden on this income relative to prior law enacted by TCJA, resulting in a revenue loss at the federal level. However, if these provisions are successful in reducing profit shifting, it may result in a larger taxable base for State corporate income tax purposes. TCJA established the general framework that is being modified by OBBB. The State revenue impact is ambiguous and is unlikely to be directly proportional to the federal impact. Therefore, the State revenue impact of these provisions, which are discussed below, is scored as indeterminate. As a result, these provisions do not trigger automatic decoupling but create uncertainty over State revenues and could be impactful for certain Maryland corporations.

***Deduction for Foreign-Derived Income of Controlled Foreign Corporations***

OBBB lowers the effective tax rate on the foreign-derived income of controlled foreign corporations (CFCs). The Act alters the name of this income to "net CFC tested income" from the prior "Global Intangible Low-Taxed Income" (GILTI). Under prior law the effective tax rate on this income was scheduled to rise beginning in tax year 2026 due to expiring provisions. OBBB reduces the increase in the effective tax rate, resulting in a lower expected future tax rate.

In tax year 2021, IRS data indicate that a total of $607.7 billion in GILTI federal income was reported by US corporations that were subject to GILTI taxation before applicable deductions and credits. Manufacturers comprised the largest share of the income (58%) followed by the Information industry (15%).

***Determination of Deduction Eligible Income***

The Act lowers the effective tax rate on Foreign Derived Deduction Eligible Income (FDDEI) relative to prior law. FDDEI is the new name for the previously named Foreign Derived Intangible Income. Similar as the impact of the Act's changes to net CFC tested income, under prior law the effective tax rate on FDDEI was set to rise. OBBB reduces the increase in the effective tax rate.

***Base Erosion and Anti-Abuse Tax***

The Act also modifies the Base Erosion and Anti-Abuse Tax (BEAT). BEAT applies to what are called base erosion payments, or payments to related foreign firms such as for interest, rent, royalty, and services. OBBB establishes a new permanent BEAT rate of 10.5% whereas under prior law the rate was scheduled to have increased.

# Estate Tax

TCJA decreased federal estate taxes by doubling the federal exclusion amount for decedents dying in calendar 2018 through 2025. The inflation-adjusted exclusion amount in calendar 2025 is equal to $13.99 million and in the absence of federal action would have reverted to approximately $7 million for decedents dying in calendar 2026.

The Act increases the estate and gift tax exemption amount to $15 million for individuals beginning on January 1, 2026 and will be indexed for inflation. There will be no impact on State estate tax revenues as Chapters 15 and 21 of 2018 decoupled the Maryland estate tax from increases in the federal exclusion amount in response to the increased exemption enacted by TCJA. The State exclusion amount will remain $5.0 million with special rules applying to qualified agricultural land.  There are no other relevant federal changes regarding estate taxes.