

Department of Legislative Services
 Maryland General Assembly
 2026 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 880 (Delegate Palakovich Carr)
 Ways and Means

Maryland Income Tax - Decoupling From Amendments to the Internal Revenue Code - Depreciation and Business Interest Expenses

This bill permanently decouples Maryland income tax from (1) the § 168(n) special depreciation allowance for qualified production property as enacted under the federal One Big Beautiful Bill Act (OBBBA) of 2025 and (2) amendments to the § 163(j) net business interest expense limitation enacted under OBBBA (and any subsequent federal legislation) and establishes related decoupling modifications. **The bill takes effect July 1, 2026, and applies to tax year 2026 and beyond.**

Fiscal Summary

State Effect: In FY 2027, general fund revenues increase by \$143.4 million; Higher Education Investment Fund (HEIF) revenues increase by \$8.5 million; Transportation Trust Fund (TTF) revenues increase by \$26.3 million; Strategic Energy Investment Fund (SEIF) revenues increase by \$0.5 million; and TTF expenditures for local highway user revenue grants increase by \$5.3 million. The bill effectuates a contingent fund swap in the FY 2027 budget as introduced; thus, HEIF expenditures increase by \$6.8 million in FY 2027, and general fund expenditures decrease by a corresponding amount. Future years reflect the projected net effect of delayed deductions (as discussed below) and the continued substitution of newly generated HEIF revenues for general fund spending.

(\$ in millions)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
GF Revenue	\$143.4	\$142.7	\$105.3	\$72.8	\$35.6
SF Revenue	\$35.3	\$32.1	\$23.9	\$16.9	\$9.1
GF Expenditure	(\$6.8)	(\$6.7)	(\$4.9)	(\$3.1)	(\$1.0)
SF Expenditure	\$12.0	\$10.3	\$7.6	\$5.0	\$2.1
Net Effect	\$173.4	\$171.2	\$126.5	\$87.8	\$43.6

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Local revenues increase by an estimated \$28.6 million in FY 2027 and by declining amounts thereafter, as discussed below.

Small Business Effect: Minimal.

Analysis

Current Law:

Section 168(n) Special Depreciation Allowance for Qualified Production Property

OBBBA establishes a 100% first-year special depreciation allowance for certain qualified production property under a new § 168(n) of the Internal Revenue Code (IRC). Qualified production property includes any portion of nonresidential real property used by the taxpayer as an integral part of qualified manufacturing, agricultural or chemical production, or refining of a qualified product. Such property is otherwise generally subject to a 39-year recovery period. The special depreciation allowance is available for qualified production property placed in service after July 4, 2025, and before January 1, 2031, the construction of which begins after January 19, 2025, and before January 1, 2029. Pursuant to § 10-108 of the Tax-General Article, Maryland has automatically decoupled from this federal tax change for tax year 2025 only.

Section 163(j) Net Business Interest Expense Limitation

The federal Tax Cuts and Jobs Act of 2017 permanently limited the net business interest expense deduction to 30% of a taxpayer's adjusted taxable income (ATI) plus any floor plan financing interest (as defined). The limitation does not apply to small businesses whose gross receipts do not exceed a specified threshold (\$32.0 million for tax year 2026). Net business interest disallowed under the limitation generally may be carried forward indefinitely. For tax year 2022 and beyond, the Act required taxpayers to apply deductions for depreciation, amortization, and depletion when calculating ATI for purposes of the limitation (consistent with the accounting concept of earnings before interest and taxes).

For tax year 2025 and beyond, OBBBA restores the pre-2022 calculation of ATI for purposes of the net business interest expense limitation, which disregards deductions for depreciation, amortization, and depletion (consistent with the accounting concept of earnings before interest, taxes, depreciation, and amortization). Pursuant to Tax-General Article § 10-108, Maryland has automatically decoupled from this federal tax change for tax year 2025 only.

State Revenues: **Exhibit 1** details the bill's estimated State revenue effects by provision and by fund. As shown in the exhibit, State revenues increase by an estimated \$178.7 million in fiscal 2027, including \$143.4 million in general funds, due to the foregone acceleration of depreciation and interest expense deductions claimed against

Maryland taxable income. Future years reflect the projected net effect of (1) foregone depreciation and interest expense deductions and (2) the offsetting effect of depreciation and interest expense deductions that, absent the bill, would have been taken in a previous year.

Exhibit 1
State Revenue Effects
Fiscal 2027-2031
(\$ in Millions)

	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>	<u>FY 2031</u>
<i>By Decoupling Provision</i>					
§ 168(n) Allowance	\$150.9	\$148.8	\$108.1	\$68.8	\$23.2
Modified § 163(j) Limitation	27.8	26.1	21.0	20.9	21.5
<i>By Fund</i>					
General Fund	\$143.4	\$142.7	\$105.3	\$72.8	\$35.6
HEIF	8.5	8.3	6.1	4.4	2.3
TTF	26.3	23.4	17.3	12.3	6.6
SEIF	0.5	0.5	0.4	0.3	0.1
Total State Revenue Effect	\$178.7	\$174.9	\$129.2	\$89.7	\$44.6

HEIF: Higher Education Investment Fund

SEIF: Strategic Energy Investment Fund

TTF: Transportation Trust Fund

Note: Numbers may not sum to total due to rounding.

Source: Comptroller's Office; Department of Legislative Services

This estimate is based on an analysis by the Comptroller's Office of State and federal income tax return data and estimated federal revenue effects of the § 168(n) special depreciation allowance and OBBBA modifications to § 163(j) published by the U.S. Joint Committee on Taxation.

State Expenditures: Exhibit 2 details the bill's estimated State expenditure effects by fund. As noted above, the fiscal 2027 budget as introduced substitutes \$6.8 million in HEIF spending for general fund higher education spending contingent on the enactment of legislation to partially decouple from OBBBA. Thus, in fiscal 2027, general fund expenditures decrease by \$6.8 million and HEIF expenditures increase by \$6.8 million, reflecting the effectuation of the contingent fund swap. TTF expenditures for local highway

user revenues also increase by an estimated \$5.3 million in fiscal 2027 due to the foregone acceleration of deductions claimed against the corporate income tax. Future years reflect the projected net effect of delayed deductions and the assumption that HEIF revenues generated under the decoupling modification relating to IRC § 168(n) continue to substitute for general fund higher education spending.

Exhibit 2
State Expenditure Effects
Fiscal 2027-2031
(\$ in Millions)

	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>	<u>FY 2031</u>
General Fund (Contingent Fund Swap)	(\$6.8)	(\$6.7)	(\$4.9)	(\$3.1)	(\$1.0)
HEIF (Contingent Fund Swap)	6.8	6.7	4.9	3.1	1.0
TTF (LHUR Grants)	5.3	3.6	2.7	1.9	1.0
Net State Expenditure Effect	\$5.3	\$3.6	\$2.7	\$1.9	\$1.0

HEIF: Higher Education Investment Fund
LHUR: local highway user revenue
TTF: Transportation Trust Fund

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

Local Revenues: Local income tax revenues and local highway user revenues increase beginning in fiscal 2027 due to the foregone acceleration of depreciation and interest expense deductions claimed against the personal and corporate income tax, respectively. As shown in **Exhibit 3**, in fiscal 2027, local revenues increase by an estimated total of \$28.6 million, including \$23.4 million in local income tax revenues and \$5.3 million in local highway user revenues. Future years reflect the local share of highway user revenues and the projected net effect of delayed deductions.

Exhibit 3
Local Revenue Effects
Fiscal 2027-2031
(\$ in Millions)

	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>	<u>FY 2031</u>
Local Income Tax Revenue	\$23.4	\$23.1	\$16.8	10.7	\$3.6
Local Highway User Revenue	5.3	3.6	2.7	1.9	1.0
Total Local Revenue Effect	\$28.6	\$26.7	\$19.5	\$12.6	\$4.6

Note: Numbers may not sum to total due to rounding.

Source: Comptroller's Office; Department of Legislative Services

Additional Comments: OBBBA further amends § 163(j) to (1) expand the definition of “motor vehicle” as it applies to floor plan financing interest (which may be deducted without limitation) to include certain trailers and campers designed to be towed by or affixed to a motor vehicle and (2) for tax year 2026 and beyond, specify that the § 163(j) limitation is to be applied prior to interest capitalization rules and exclude certain controlled foreign corporation income inclusion amounts from the calculation of ATI. It is unclear whether the bill’s decoupling modification requires a taxpayer to disregard these changes for Maryland income tax purposes. Any such effects are not specifically accounted for in this fiscal and policy note.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Department of Legislative Services

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caw/jrb

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