

Department of Legislative Services  
Maryland General Assembly  
2026 Session

FISCAL AND POLICY NOTE  
First Reader

House Bill 930  
Ways and Means

(Delegate Forbes, *et al.*)

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**Income Tax – Decoupling From Federal Changes – Education Expenses**

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This bill (1) prohibits the Governor from electing to participate in the federal income tax credit program for qualified elementary and secondary education scholarships enacted under the federal One Big Beautiful Bill Act (OBBBA) of 2025; (2) requires an income tax addition modification for the amount of any employer contributions to a Trump account excluded from federal gross income; and (3) excludes from certain Maryland income tax benefits disbursements from and contributions to a college investment plan that are used for certain elementary or secondary education expenses. **The bill takes effect July 1, 2026; provisions relating to income tax addition and subtraction modifications apply to tax year 2026 and beyond.**

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**Fiscal Summary**

**State Effect:** General fund revenues increase by an indeterminate amount annually beginning in FY 2027, as discussed below. General fund expenditures for the Comptroller’s Office may increase by \$50,000 to \$100,000 in FY 2027 for one-time programming costs.

**Local Effect:** Local income tax revenues increase by an indeterminate amount annually beginning in FY 2027. Local expenditures are not affected.

**Small Business Effect:** None.

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## Analysis

### Current Law:

#### *Federal Income Tax Credit for Contributions to Scholarship Granting Organizations*

OBBBA allows a federal individual income tax credit for up to \$1,700 of the amount of qualified cash contributions made by a taxpayer to a state-designated scholarship granting organization (SGO) during the tax year. The credit is available for tax years ending after December 31, 2026. Qualified contributions for which a credit is allowed may not be considered a charitable contribution for purposes of the Internal Revenue Code (IRC) § 170 charitable contribution deduction.

By January 1 annually, a state that voluntarily elects to participate in the program must provide the Secretary of the Treasury with a list of SGOs located in the state that meet the applicable requirements. The election must be made by the governor of the state or other individual, agency, or entity designated under state law to make such an election.

An organization may be eligible for designation as an SGO if the organization is a public charity recognized under IRC § 501(c)(3); maintains one or more separate accounts exclusively for qualified contributions; provides scholarships to at least 10 students who do not all attend the same school; spends at least 90% of its income on scholarships for eligible students (as defined); does not provide scholarships for any expenses other than qualified elementary or secondary education expenses within the meaning of IRC § 530 (Coverdell education savings accounts); does not earmark or set aside contributions for scholarships on behalf of any particular student; and meets other specified requirements relating to the prioritization of scholarship awards and verification of student eligibility. “Eligible student” is defined as an individual who (1) is a member of a household whose income does not exceed 300% of the area median gross income and (2) is eligible to enroll in a public elementary or secondary school.

#### *Trump Accounts*

OBBBA provides for certain tax-advantaged savings accounts (“Trump accounts”) for qualifying children that are treated like individual retirement accounts under IRC § 408(a). Annual aggregate contributions, other than certain exempt contributions, are limited to \$5,000 as adjusted for inflation for tax years after 2027. Employer contributions to the Trump account of an employee or dependent of an employee are excluded from the employee’s gross income. The excludable amount is limited to \$2,500 per employee, as adjusted for inflation for tax years after 2027.

### *529 Plan Disbursements for Elementary and Secondary Education Expenses*

The federal Tax Cuts and Jobs Act (TCJA) of 2017 expanded the definition of “qualified higher education expense” as it applies to qualified tuition programs (529 plans) to include expenses for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school, subject to an annual aggregate per-beneficiary distribution limit of \$10,000. Effective July 5, 2025, OBBBA allows tax-exempt distributions for additional expenses in connection with enrollment or attendance at an elementary or secondary school (subject to the aforementioned per-beneficiary limit), including curriculum and curricular materials; books or other instructional materials; online educational materials; specified tuition for tutoring or educational classes outside of the home; specified examination fees; fees for dual enrollment in an institution of higher education; and specified educational therapies for students with disabilities. For tax year 2026 and beyond, OBBBA doubles the annual per-beneficiary limitation on distributions for elementary and secondary education expenses to \$20,000.

### *Maryland Subtraction Modification for College Investment Plan Contributions*

Maryland allows an income tax subtraction modification for amounts contributed to an investment account under the Maryland Senator Edward J. Kasemeyer College Investment Plan (MCIP) during the tax year, subject to an annual \$2,500 per-beneficiary limit. For purposes of the limitation, each spouse on a joint return is treated separately. Any excess amount may be carried forward, subject to the \$2,500 annual per-contributor, per-beneficiary limit, for up to 10 years until fully used. *Under the bill*, the subtraction modification is disallowed for funds contributed to an MCIP account that are used for elementary or secondary education expenses. Any such excluded contributions by an account holder must subsequently be added back to income to the extent of any distributions received by the account holder that are not used on behalf of the qualified beneficiary or designated qualified beneficiary for qualified higher education expenses within the meaning of IRC § 529. *Under the bill*, the addition modification includes any such amounts that are used for elementary or secondary education expenses.

**State/Local Revenues:** State general fund revenues and local income tax revenues increase by an indeterminate amount annually beginning in fiscal 2027 to the extent the bill’s provisions relating to excluded employer contributions to Trump accounts and college investment plan contributions and disbursements used for elementary and secondary education expenses result in additions to income and/or preclude subtractions from income on Maryland income tax returns. Any such impact cannot be reliably predicted at this time.

The bill's provision prohibiting the State from electing to participate in the federal income tax credit program for qualified elementary and secondary education scholarships does not directly affect State or local revenues.

**State Expenditures:** General fund expenditures for the Comptroller's Office may increase by \$50,000 to \$100,000 in fiscal 2027 for one-time contractual programming costs to add the addition modification for employer contributions to Trump accounts to the income tax form.

The bill's provision prohibiting the State from electing to participate in the federal income tax credit program for qualified elementary and secondary education scholarships does not directly affect State expenditures.

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### **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; Maryland State Treasurer's Office; Department of Legislative Services

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