

Department of Legislative Services
Maryland General Assembly
2026 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 201
Ways and Means

(Delegate Fisher, *et al.*)

Income Tax - Tips or Gratuities - Subtraction Modification (No Income Taxes on Tips Act)

This bill allows a subtraction modification against the personal income tax for any compensation received in the form of a tip or gratuity for employment in a food service facility; employment in a business licensed for on-sale consumption of alcoholic beverages; employment in a hotel; providing passenger-for-hire services; or providing taxicab services. **The bill takes effect July 1, 2026, and applies to tax year 2026 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by an indeterminate but potentially significant amount annually beginning in FY 2027, as discussed below. The Comptroller's Office can implement the bill with existing budgeted resources.

Local Effect: Local income tax revenues decrease by an indeterminate but potentially significant amount annually beginning in FY 2027. Expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: Tips, including cash tips that are not reported to an employer, are considered income for federal and Maryland income tax purposes and are generally considered wages for federal payroll tax purposes. Tips are also considered earned income for purposes of the federal and Maryland earned income tax credits.

The One Big Beautiful Bill Act of 2025 authorizes a federal "below-the-line" deduction (deducted after calculation of adjusted gross income) for qualified tips for tax

years 2025 through 2028. The deduction, which is available to both itemized and standard deduction filers, does not flow through to the Maryland income tax return. The maximum allowable deduction is \$25,000 reduced by \$100 for each \$1,000 by which the taxpayer's modified adjusted gross income exceeds \$150,000 (\$300,000 for joint filers). For purposes of the deduction, "qualified tips" are defined as cash tips received by an individual in an occupation which customarily and regularly received tips on or before December 31, 2024, as provided by the Secretary of the Treasury. Qualified tips do not include any amount received by an individual unless (1) such amount is paid voluntarily without any consequence in the event of nonpayment, is not the subject of negotiation, and is determined by the payor; (2) the trade or business in the course of which the individual receives such amount is not a specified service trade or business within the meaning of the § 199A qualified business income deduction; and (3) such other requirements as may be established in regulations or other guidance are satisfied.

State/Local Revenues: General fund revenues and local income tax revenues decrease by an indeterminate but potentially significant amount annually beginning in fiscal 2027 due to subtraction modifications claimed against the personal income tax. Due to data limitations, the precise effect on State and local revenues cannot be reliably estimated at this time. For context, according to national W-2 statistics published by the Internal Revenue Service, tips reported on tax year 2018 W-2s totaled \$38.3 billion. The Department of Legislative Services (DLS) notes that the subtraction modification contemplated under the bill, though not subject to a dollar-amount limitation or income eligibility threshold, applies to a narrower list of eligible occupations than the federal qualified tips deduction. DLS also notes that many eligible taxpayers may have little to no Maryland income tax liability in the absence of the bill.

For context, according to American Community Survey statistics published by the U.S. Census Bureau, there were an estimated 140,500 individuals employed in food preparation and serving related occupations in Maryland in 2024; associated median earnings were estimated at \$21,800. In a 2024 analysis of Survey of Income and Program Participation data, the Yale Budget Lab estimated that tips account for about 15% of wages earned in food preparation and service occupations. *For illustrative purposes*, DLS estimates that were the bill in effect for tax year 2025, the subtraction modification would have generated approximately \$158 in State income tax savings for a single filer who (1) claims no dependents for the tax year; (2) claims the Maryland standard deduction; (3) was employed in a food service occupation; (4) whose tax year 2025 earnings reflect estimated median earnings for individuals employed in food preparation and serving related occupations (as adjusted for inflation); and (5) for whom qualifying tips accounted for 15% of tax year 2025 earnings.

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See HB 1005 of 2025.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Internal Revenue Service; U.S. Census Bureau; Yale Budget Lab; Moody's Analytics; Department of Legislative Services

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sj/hlb

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