

Department of Legislative Services
 Maryland General Assembly
 2026 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1035 (Delegate Fisher, *et al.*)
 Ways and Means

Income Tax - Subtraction Modification - Overtime Compensation

This bill establishes an income tax subtraction modification modeled on the federal deduction for qualified overtime compensation as enacted under the federal One Big Beautiful Bill Act (OBBBA) of 2025. **The bill takes effect July 1, 2026, applies to tax years 2026 through 2028, and terminates June 30, 2029.**

Fiscal Summary

State Effect: General fund revenues decrease by an estimated \$85.2 million in FY 2027; future years reflect projected income growth and the termination of the subtraction modification after tax year 2028. General fund expenditures for the Comptroller’s Office increase by \$50,000 to \$100,000 in FY 2027 only.

(\$ in millions)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
GF Revenue	(\$85.2)	(\$88.6)	(\$92.1)	\$0	\$0
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$85.3)	(\$88.6)	(\$92.1)	\$0.0	\$0.0

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

Local Effect: Local income tax revenues decrease by an estimated \$51.9 million in FY 2027 and by similar amounts annually through FY 2029, as discussed below. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: OBBBA authorizes a federal “below-the-line” deduction (deducted after calculation of adjusted gross income) for qualified overtime compensation 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 \$12,500 (\$25,000 for joint filers) reduced by \$100 for each \$1,000 by which the taxpayer’s modified adjusted gross income exceeds \$150,000 (\$300,000 for joint filers). “Qualified overtime compensation” is defined as overtime compensation paid to an individual required under the Fair Labor Standards Act (FLSA) of 1938 that is in excess of the regular rate under FLSA at which the individual is employed. Qualified overtime compensation must be included on an information return furnished to the individual by the payor.

State/Local Revenues: State general fund revenues and local income tax revenues decrease significantly in fiscal 2027 through 2029 due to increases in subtraction modifications claimed on Maryland personal income tax returns. **Exhibit 1** displays the bill’s estimated effect on State and local revenues in fiscal 2027 through 2031. As shown in the exhibit, in fiscal 2027, State general fund revenues and local income tax revenues decrease by an estimated \$85.2 million and \$51.9 million, respectively. Future years reflect projected income growth and the termination of the bill’s provisions after tax year 2028.

Exhibit 1
Effect on State and Local Revenues
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>
State Effect	(\$85.2)	(\$88.6)	(\$92.1)	\$0	\$0
Local Effect	(51.9)	(54.0)	(56.1)	0	0
Total Effect	(\$137.1)	(\$142.6)	(\$148.3)	\$0	\$0

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 income tax return data, estimated federal revenue effects of the federal deduction for qualified overtime compensation published by the U.S. Joint Committee on Taxation, and estimated distributional effects of the federal deduction published by the Urban-Brookings Tax Policy Center.

State Expenditures: The Comptroller's Office estimates one-time contractual programming costs ranging from \$50,000 to \$100,000. Thus, general fund expenditures for the Comptroller's Office may increase by \$50,000 to \$100,000 in fiscal 2027 only.

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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me/hlb

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