

Department of Legislative Services
 Maryland General Assembly
 2026 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 926 (Delegate Ruth, *et al.*)
 Ways and Means

Income Tax – Individual Itemized Deductions – Alterations

This bill disallows the first \$10,000 of itemized deductions for state and local real property taxes paid for tax years 2025 through 2029. The related reduction from federal itemized deductions is applied prior to the application of the phase-out reduction required under the Budget Reconciliation and Financing Act (BRFA) of 2025 for itemizers with federal adjusted gross income (AGI) in excess of \$200,000 (\$100,000 if married filing jointly). **The bill takes effect July 1, 2026.**

Fiscal Summary

State Effect: General fund revenues increase by an estimated \$317.3 million in FY 2027 (reflecting the effect of tax years 2025 and 2026 and a portion of tax year 2027). Future years reflect annualization, projected income growth, and the phasing out of the bill’s provisions after tax year 2029. Comptroller general fund expenditures and agency operations are likely affected in FY 2027, as discussed below.

(\$ in millions)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
GF Revenue	\$317.3	\$142.2	\$147.7	\$98.4	\$0
GF Expenditure	-	\$0	\$0	\$0	\$0
Net Effect	\$317.3	\$142.2	\$147.7	\$98.4	\$0.0

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

Local Effect: Local income tax revenues increase by an estimated \$192.7 million in FY 2027; \$86.4 million in FY 2028; \$89.7 million in FY 2029; and \$59.8 million in FY 2030.

Small Business Effect: None.

Analysis

Current Law: An individual who itemizes federal deductions may elect to itemize Maryland deductions. Maryland generally conforms to federal itemized deductions but disallows deductions for (1) state and local income taxes paid and (2) contributions of a preservation or conservation easement for which a Maryland income tax credit for preservation and conservation easements is claimed. The BRFA of 2025 (Chapter 604) made several changes to the personal income tax for tax year 2025 and beyond – among other things, the Act increases the Maryland standard deduction and requires taxpayers with federal AGI in excess of \$200,000 (\$100,000 if married filing separately) to reduce the amount of their otherwise allowable itemized deductions by an amount equal to 7.5% of federal AGI in excess of the threshold.

State and Local Tax Deduction

The federal Tax Cuts and Jobs Act of 2017 generally limited the individual deduction for state and local taxes paid to \$10,000 (\$5,000 if married filing separately) for tax years 2018 through 2025. The federal One Big Beautiful Bill Act of 2025 extends and increases the limitation to \$40,000 (\$20,000 if married filing separately) for tax year 2025. The enhanced limitation phases out for taxpayers with modified AGI in excess of \$500,000 (\$250,000 if married filing separately). The dollar amount limitation and income thresholds increase by 1% annually for tax years 2026 through 2029, after which the state and local tax deduction limitation reverts to \$10,000 (\$5,000 if married filing separately).

State/Local Revenues: State general fund revenues and local income tax revenues increase significantly in fiscal 2027 through 2030 due to foregone state and local tax deductions. **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 increase by an estimated \$317.3 million and \$192.7 million, respectively, reflecting the effect of tax years 2025 and 2026 and a portion of tax year 2027. Future years reflect annualization, projected income growth, and the phasing out of the bill's provisions after tax year 2030. This estimate does not include any interest assessed on additional tax due for tax year 2025, which the bill does not waive.

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	\$317.3	\$142.2	\$147.7	\$98.4	\$0
Local Effect	192.7	86.4	89.7	59.8	\$0
Total Effect	\$510.0	\$228.5	\$237.4	\$158.2	\$0

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

Source: Department of Legislative Services

This estimate is based on an analysis of tax year 2024 Maryland income tax data and federal individual deduction statistics for Maryland for tax year 2022 (the most recent year for which data is available) published by the Internal Revenue Service.

State Expenditures: The bill's change applies retroactively to tax year 2025, the tax filing season of which is underway. Given the bill's July 1, 2026 effective date, it is assumed that most affected taxpayers will need to either refile or file amended returns for tax year 2025. The impact to Comptroller operations is likely to be substantial, and general fund expenditures for the Comptroller's Office likely increase in fiscal 2027 due to implementation costs, which are unclear at this time.

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; Internal Revenue Service; Department of Legislative Services

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jg/hlb

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