

BRFA Tax Provisions

Income Tax	<p>Repeal the Phase-in of the Standard Deduction</p> <p>Increase the Standard Deduction by 20% (\$3,350/\$6,700 for tax year 2025)</p> <p>Phase-out itemized deductions for Federal Adjusted Gross Income above \$200,000 by applying a 7.5% phase-out factor</p> <p>Add two new tax brackets for taxable income between</p> <ul style="list-style-type: none"> · \$500,001 and \$1,000,000 (6.25%) · \$1,000,001 + (6.50%) <p>Modify the child tax credit to phase out rather than having a cliff at \$15,000</p>	\$344 M
Capital Gains Surcharge	<p>Establish a new 2% surcharge on capital gains income in excess of \$350,000 with 1.25% to the General Fund and 0.75% to the Transportation Trust Fund (TTF)</p>	<p>\$367 M</p> <p>229 GF</p> <p>138 TTF</p>
Sports Wagering	<p>Increase the tax rate from 15% to 20% with the increase going to the General Fund</p>	\$32 M
Sales Tax	<p>Establish a Sales Tax on data/IT services with a tax rate of 3.0%, and distribute the revenue to the General Fund</p>	\$497 M
Repeal Sales Tax Exemptions	<p>Repeal exemption for sales of photographic and artistic material used in advertising</p> <p>Repeal exemption for sales of precious metal coins or bullion over \$1,000 with exemption for sales at Baltimore City Convention Center</p>	\$21 M
Cannabis Tax Rate	<p>Increase rate from 9% to 12%</p>	\$39 M
Vending Machine Sales	<p>Apply 6% sales tax to vending machine sales</p>	\$9 M
Film Production Activity Tax Credit	<p>Reduce cap for fiscal 2026 from \$20 M to \$12 M</p>	\$8 M
Local Income Tax	<p>Increases the maximum local income tax rate from 3.2% to 3.3%</p>	

**Transportation
Revenue**

Vehicle Excise Tax	Increase the excise tax on vehicles to 6.80%	\$158 M
Registration Fees	Accelerate from fiscal 2027 to fiscal 2026 the annual vehicle registration fee increases for Class A (passenger), Class M (multipurpose), and Class E (truck)	\$51 M
VEIP Fees	Increase the maximum fee to \$30 (from \$14)	\$20 M
Historic Tags	Limit definition to vehicles older than the 1999 model year rather than 20 years	\$9 M
Short-term Vehicle Rentals	Repeal the excise tax exemption and establish an excise tax rate of 3.5%	\$47 M
Certificate of Title	Double fees (for new/used vehicle to \$200)	\$80 M

Transportation Trust Fund also receives portion of capital gains surcharge discussed above.

Amend Section 10-754 of the Tax General Article to Reduce the Trigger for a Lower Tax Credit That Is Based on Lower Revenue Estimates

Section 10-754

- (a) In this section, “eligible taxpayer” means a resident who, on the last day of the taxable year, is at least 65 years old. (b) Except as provided in subsection (c) of this section and subject to subsection (d) of this section, an eligible taxpayer may claim a credit against the State income tax in an amount equal to:
- (1) \$1,000 for an eligible taxpayer, other than an individual described under item (2) of this subsection, whose federal adjusted gross income does not exceed \$100,000; or
 - (2) for spouses filing a joint return or for a surviving spouse or head of household as defined in § 2 of the Internal Revenue Code whose federal adjusted gross income does not exceed \$150,000: (i) except as provided in item (ii) of this item, \$1,750; or (ii) if only one of the individuals filing the joint return is an eligible taxpayer, \$1,000.
- (c) For a taxable year in which the September General Fund estimate for the current fiscal year in the September Board of Revenue Estimates report issued during the taxable year is more than [7.5%] 3.75% below the March General Fund estimate for the current fiscal year in the March Board of Revenue Estimates report issued in the taxable year, the amount of the credit allowed under subsection (b) of this section is limited to:
- (1) \$500 for an eligible taxpayer, other than an individual described under item (2) of this subsection, whose federal adjusted gross income is at least \$50,000 but does not exceed \$100,000; or
 - (2) for spouses filing a joint return or for a surviving spouse or head of household as defined in § 2 of the Internal Revenue Code whose federal adjusted gross income is at least \$100,000 but does not exceed \$150,000: (i) except as provided in item (ii) of this item, \$875; or (ii) if only one of the individuals filing the joint return is an eligible taxpayer, \$500. (d) If the credit allowed under this section in any taxable year exceeds the State income tax for that taxable year, the unused amount of the credit may not be carried over to any other taxable year.

Explanation: Under current law, the tax credit for eligible households is automatically reduced for a tax year in which the September revenue estimate is more than 7.5% below the March revenue estimate for the current fiscal year. This action would alter the trigger so that the lower tax credits occur for a 3.75% revenue reduction.

Estimated Effect of Proposed Income Tax Changes on Example Taxpayers Tax Year 2025

	<u>Filing Status</u>	<u>FAGI</u>	<u>State Income Tax Change</u>	<u>Local Income Tax Change</u> ¹	<u>Total State & Local Income Tax Change Amount</u>	<u>Percent of FAGI</u>
Household 1 (Family of 1)	Single	\$15,000	-\$52	-\$25 to -\$36	-\$77 to -\$88	-0.5% to -0.6%
Household 2 (Family of 3)	Head of Household	25,000	-140	0	-140	-0.6%
Household 3 (Family of 3)	Head of Household	50,000	-53	-25 to -36	-78 to -89	-0.2% to -0.2%
Household 4 (Family of 4)	Joint	100,000	-53	-25 to -35	-78 to -88	-0.1%
Household 5 (Family of 4)	Joint	300,000	-61	-25 to -35	-86 to -96	0.0%
Household 6 (Family of 4)	Joint	750,000	5,042	928 to 1,320	5,970 to 6,362	0.8%
Household 7 (Family of 4)	Joint	1,250,000	12,485	1,649 to 2,345	14,134 to 14,830	1.1% to 1.2%

FAGI: federal adjusted gross income
 Joint: married filing jointly

¹ Amounts shown do not include the effect of any potential increases in county income tax rates for tax year 2025 due to the proposed increase (from 3.20% to 3.30%) in the maximum authorized county income tax rate.

Assumptions:

Households 2 through 7 include two dependent children younger than age 13, one of whom is younger than age 6.

All income for households 1, 2, and 3 is salary and wage income; households 1, 2, and 3 each claim the State and local earned income credits.

Households 1, 2, 3, 4, and 5 elect the standard deduction on the federal income tax return, and households 6 and 7 itemize deductions on the federal return. Households 6 and 7 claim federal itemized deductions totaling \$60,000 and \$90,000, respectively.

Households 6 and 7 each have net capital gain for tax year 2025 totaling \$100,000 and \$250,000, respectively. The full amount of each gain is subject to the proposed 2% surtax.

Proposed Calculation of Maryland Itemized Deductions for Example Taxpayers
Tax Year 2025

	FAGI	\$200,000	\$250,000	\$500,000	\$1,000,000
A. Tentative Maryland Itemized Deductions		\$50,000	50,000	\$50,000	\$50,000
B. Amount of FAGI in excess of \$200,000		0	50,000	300,000	800,000
C. B multiplied by 7.5%		0	3,750	22,500	60,000
D. A minus C		50,000	46,250	27,500	-10,000
E. Greater of D and Proposed Tax Year 2025 Standard Deduction		50,000	46,250	27,500	6,700 ¹
Tax Year 2025 Deductions		\$50,000	\$46,250	\$27,500	\$6,700

FAGI: federal adjusted gross income

¹ Assumes that this example taxpayer is married filing jointly or is a head of household or qualified surviving spouse.

Transportation Revenues
House Proposal
Fiscal 2026-2028
(\$ in Millions)

	<u>2026</u>	<u>2027</u>	<u>2028</u>
Increase Vehicle Excise Tax to 6.8%	\$158.0	\$163.0	\$172.0
0.75% Increase in Capital Gains	138.0	102.0	102.0
Increase Certificate of Title Fee	80.0	80.0	80.0
Rental Vehicle Excise Tax	47.0	47.0	47.0
VEIP Fee Increase	20.0	20.8	21.3
Historic Tag	9.0	9.0	9.0
Accelerate Registration Increases	51.0	0.0	0.0
Tire Fee of \$3.25	0.0	0.0	0.0
Total	\$503.0	\$421.8	\$431.3

VEIP: Vehicle Emissions Inspection Program