

Policymakers Should Prioritize Revenue, Not Cuts for a Healthy, Equitable Maryland Economy

Position Statement Supporting Senate Bill 284 With Amendments

Given before the Budget and Taxation Committee

Fully Decoupling From Costly, Inequitable Federal Tax Changes Will Protect Maryland's Essential Public Investments

Pages 40-42

Federal legislation passed in 2025 provided \$4.5 trillion in new tax breaks that overwhelmingly benefit investors, large corporations, and ultra-wealthy individuals. At the same time, the legislation is threatening essential food assistance and health care for thousands of Marylanders and straining the state budget. Absent legislative action, the law is expected to add \$588 million to the general fund deficit between FY 2026 and 2031.

The Maryland Center on Economic Policy supports provisions in SB 284 that would decouple Maryland from one major corporate tax break in H.R. 1 and strongly supports decoupling from other costly provisions that are overwhelmingly tilted towards those at the top.

Included in SB 284:

- The special depreciation allowance for qualified production property allows businesses to deduct the full cost of real estate purchases for certain manufacturing purposes up front, rather than over time as under conventional accounting rules.
- Bonus depreciation allows companies to deduct the cost of certain investments such as equipment and software purchases on an accelerated schedule – in some cases all at once – rather than over the lifetime of the investment as called for under conventional accounting rules. This allows businesses to push tax payments into the future and functions essentially like a zero-interest loan. **SB 284 partially decouples from bonus depreciation. Maryland should instead adopt language from House Bill 801, which would fully decouple.**

Additional provisions Maryland should decouple from:

- H.R. 1 weakens one of the few revenue-raising provisions of the 2017 Trump tax law by increasing limits on the amount of interest costs businesses can deduct. Legislation introduced in the House, HB 880, would decouple from this provision.

- **Foreign-derived deduction-eligible income (FDDEI)** is a tax break on profits from intellectual property produced in the United States and sold abroad, previously known as foreign-derived intangible income (FDII).ⁱ HB 1080 decouples from this provision:
 - While the deduction is intended to encourage exports, it cannot serve this purpose at the state level, since it equally subsidizes qualified profits related to activity in any state. A company can reduce its Maryland tax responsibility with FDDEI produced in California.
 - Because Maryland’s corporate income tax uses single sales factor apportionment, we already do not tax profits from overseas sales. Conforming to FDDEI allows corporations to double-deduct this income.
 - This tax break primarily benefits massive global corporations, especially California-based tech behemoths. Fifteen companies alone claimed \$13.9 billion in federal tax breaks through FDII in 2023, including Alphabet (parent company of Google, \$3.9 billion), Meta (parent company of Facebook, \$2.0 billion), Amazon (\$1.4 billion), and Nvidia (\$1.4 billion).ⁱⁱ
 - 19 states have already decoupled from FDDEI or its predecessor – a diverse group including California, Pennsylvania, both Carolinas, Massachusetts, Mississippi, and Utah.
 - **Maryland may regain about \$93 million each year decoupling from FDDEI**, according to the Institute on Taxation and Economic Policy.ⁱⁱⁱ
- H.R. 1 makes permanent the **Opportunity Zones** subsidy program established under the 2017 tax overhaul, with modest changes:^{iv}
 - While the program’s stated purpose is to encourage economic development in struggling areas, it functions by deferring and in many cases eliminating investors’ capital gains income, among the most concentrated categories of income along lines of income, wealth, and race and ethnicity.
 - Multiple empirical analyses have found that Opportunity Zones subsidies have had small or nonexistent impacts in the areas they are ostensibly intended to benefit.^v This is in line with repeated findings by the Department of Legislative Services that a wide range of Maryland’s tax subsidy programs are ineffective.^{vi}
 - House Bill 1080 prohibits designation of new Opportunity Zones in Maryland and decouples from expanded tax deductions for certain Opportunity Zone investments.
- **The so-called “Qualified Small Business Stock” (QSBS) deduction zeroes out taxes on capital gains from certain early-stage corporate investments and mainly benefits wealthy venture capitalists.** This tax break was already ballooning in cost even before H.R. 1, and overwhelmingly benefits households with over \$1 million in annual income. HB 801 includes language decoupling from this provision.
- **Maryland should decouple from the accelerated expensing of research and experimental (R&E) expenditures under H.R. 1.** Conforming to this tax break doubles down on existing state tax subsidies DLS has found to be ineffective and recommended discontinuing.^{vii} Decoupling would save about \$100 million across FY 2026–2027.^{viii}
- **Maryland should maintain the current \$10,000 cap on state and local tax deductions.** HB 926 is intended to decouple from federal changes that would significantly increase the cap. However, as

introduced, it has a drafting error and any language added to the BRFA should reflect the planned sponsor amendment, not the introduced language.

- Before the passage of HR 1, policymakers and state analysts were expecting Congress to make the 2017 law's \$10,000 cap permanent, which would have increased state revenue by \$300 million per year compared to prior law.^{ix} Instead, Congress and the Trump administration increased the SALT cap by 300%
 - The increased SALT cap primarily benefits well-off households. At the federal level, 21% of tax cuts attributable to the \$40,000 SALT cap in Maryland went to the wealthiest 5% of households, with annual income over \$395,000.^x
 - Maintaining the \$10,000 SALT cap would likely save approximately \$150 million per year, based on information from the 2025 *60 Day Report*. Under current federal law, these impacts would be experienced only through FY 2030. However, if Congress extends the \$40,000 cap beyond its current sunset date, this measure would prevent permanent revenue loss.
- **Maryland should reject special tax breaks for private schools under H.R. 1** by adopted provisions of HB 930.

Revenue Savings from Proposed Tax Decoupling Measures			
	Savings (\$m)	Time Period	Source
Decoupling measures in Gov. Moore's budget proposal			
Qualified Production Property	123	FY 26–27	Fiscal Briefing
Bonus Depreciation (Partial)	10	FY 26–27	Fiscal Briefing
Recommended decoupling measures			
Business Interest	28	FY 27	HB 880 Fiscal & Policy Note
FDDEI	93	FY 27	Institute on Taxation and Economic Policy
Qualified Small Business Stock	20	FY 27	HB 801 Fiscal & Policy Note
R&E Expensing	100	FY 26–27	Fiscal Briefing
SALT Cap	150	Annual through FY 30	MDCEP order-of-magnitude estimate based on 60 Day Report
Not included: Additional revenue gain from full bonus depreciation decoupling; Opportunity Zones; private school tax breaks.			

Sufficient tax revenue is essential for supporting the investments that make Maryland a good place to live, work, and do business – such as schools to train tomorrow’s workforce, roads to bring workers to jobs and goods to market, and courts to enforce contracts.

Lawmakers this year face a stark choice. We face a projected general fund structural deficit of \$2.3 billion in FY 2028, growing to \$4.1 billion within five years. The math is simple: To meet the state's constitutional balanced budget requirement, we will need to either raise significant new revenue or enact further, deeper cuts into public services like education, child care, and transportation.

These cuts would undermine precisely the investments that make Maryland's economy strong. Surveys of corporate leaders make clear that taxes are not among their most important considerations when deciding where to locate. They place more value on factors like access to skilled labor, responsive government, and quality of life, all of which depend on sufficient public investment. Shareholders and executives may wish to pay less in taxes, but the revenue loss would ultimately make Maryland a less attractive place to do business.

Maryland's corporate tax system already offers generous breaks to many wealthy multinational corporations because we have not closed major loopholes that most other states have addressed. We can't afford to provide another boost to CEOs and shareholders while so many Maryland families are struggling to afford basics like rent, utilities, and food.

Reject Proposed Cuts to Behavioral Health Care Services for Kids

Pg. 9, line 14

Addressing students' mental health is critical to them being able to succeed in schools. The Maryland Consortium on Consolidated Community Supports plays a critical role in delivering mental health care and other wraparound services in schools, where they will be the most successful at reaching kids who need them. As funding has ramped up for this program over the last few years, the Consortium is now in 80% of schools in the state, serving more than 94,000 students in the current school year, with the vast majority of those receiving services reporting stable or improved outcomes.^{xi}

Funding for the Consortium was already cut in the current fiscal year. Cutting funding for a second year in a row would be a significant step backwards. We strongly urge the Committee to at least maintain funding at the current level of \$100 million. About 24% of Maryland children ages 3-17 experienced mental, emotional, developmental, or behavioral problems between 2023 and 2024.^{xii}

Reject Proposals to Shift Additional Funding Responsibilities to Local Governments

Pgs. 18 and 26-28

Maryland's state and local governments share responsibility for funding a range of services, including public education, public servant retirement costs, and property tax administration. Local governments currently face significant fiscal challenges of their own and typically have less flexibility than the state to raise new revenue. Unilaterally shifting funding responsibilities onto local governments is irresponsible. It does not *solve* fiscal challenges, it simply asks someone else to solve them. MDCEP opposes proposals to further increase the local share of teacher and community college retirement costs, on top of increases approved last year, and freeze the disparity grants that provide additional support to lower-wealth counties for three years.

Faithfully Implement Blueprint Pre-K Expansion

Department of Legislative Services recommendation

One of the critical components of the Blueprint for Maryland’s Future is the planned expansion of pre-kindergarten programs. When children have access to a high-quality pre-K education, they begin elementary school more ready to learn, generating measurable benefits decades into the future. This is why ongoing efforts to expand access to pre-K in Maryland are so important. Few educational interventions have been shown to bring greater returns both to children and to the community. Yet too many Maryland children have been historically shut out of pre-K education due to high program costs and the inability of existing programs to meet demand.

The planned expansion of public pre-K for most 4-year-olds and some 3-year-olds envisioned under the Blueprint will be good for Maryland children and strengthen our state’s education system—which, in the long run, means strengthening our economy. Under current law, eligibility for subsidized pre-K for Tier II families is scheduled to expand from 360% of the federal poverty level (FPL) to 600% of FPL in FY 2027, and the statutory per-pupil funding rate is set to increase from \$14,473 in FY 2026 to \$19,950 in FY 2027. **We are deeply concerned about the recommendation from the Department of Legislative Services that would cap these planned increases. These recommended adjustments would cut more than \$53 million to expected funding for pre-K in FY 2027.**

These proposed adjustments deviate sharply from the statutory expansion timeline in the Blueprint, raise questions about the predictability of funding for pre-K providers, and halt progress toward expanded, high-quality early education especially to those students that need the most support.

ⁱ Carl Davis, “It’s Time for States to Jettison Nonsensical FDDEI Deductions,” Institute on Taxation and Economic Policy, 2026, <https://itep.org/state-corporate-taxes-foreign-derived-deduction-eligible-income-2026/>

ⁱⁱ Joe Hughes and Spandan Marasini, “Fifteen Companies Each Avoided More than \$1 Billion in Taxes from a Single Trump Tax Cut,” Institute on Taxation and Economic Policy, 2024, <https://itep.org/corporate-tax-avoidance-trump-tax-cut-fdii/>

ⁱⁱⁱ Davis, 2026

^{iv} Eli Byerly-Duke, “State Tax Dollars Shouldn’t Subsidize Federal Opportunity Zones,” Institute on Taxation and Economic Policy, 2025, <https://itep.org/state-tax-shouldnt-subsidize-federal-opportunity-zones/>

^v Kevin Corinth, David Coyne, Naomi Feldman, and Craig Johnson, “The Targeting of Place-Based Policies: The New Markets Tax Credit Versus Opportunity Zones,” National Bureau of Economic Research working paper, 2025, <https://www.nber.org/system/files/chapters/c15066/c15066.pdf>

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Matthew Freedman, Shantanu Khanna, and David Neumark, “The Impacts of Opportunity Zones on Zone Residents,” University of California, Irvine, 2021, <https://www.brookings.edu/wp-content/uploads/2021/01/Neumark-et-al.pdf>

^{vi} Katlyee Cannon, Heather MacDonagh, Robert Rehrmann, and Charity Scott, “Evaluation of the One Maryland Economic Development Tax Credit,” Department of Legislative Services, 2022, https://dls.maryland.gov/pubs/prod/TaxFiscalPlan/Evaluation_One_Maryland_Economic_Development_Tax_Credit.pdf

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vii Allison et al., 2024

viii FY 2027 Fiscal Briefing, https://dls.maryland.gov/pubs/prod/RecurRpt/Fiscal_Briefing_2026.pdf

ix Discussed during 2025 Spending Affordability Committee briefing; briefly covered in DLS briefing report, https://dls.maryland.gov/pubs/prod/OperBgt/25_Spending_Affordability_Briefing.pdf#page=14

x Institute on Taxation and Economic Policy Microsimulation Tax Model, unpublished estimates, 2025

xi “Maryland Consortium on Coordinated Community Supports, Statewide Impact” Maryland Department of Health, 2025, https://health.maryland.gov/mchrc/Documents/002%20-%20MD%20Consortium%20Documents%20%26%20Info/04%20-%202026%20Documents/01%20-%20January/Y2%20RP1%20Impact%20Report_Acc.pdf

xii 2023–2024 National Survey of Children’s Health