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THE MARYLAND HOUSE OF DELEGATES  
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**Testimony in Support of HB 880**  
**Maryland Income Tax - Decoupling From Amendments to the Internal Revenue**  
**Code - Depreciation and Business Interest Expenses**

Maryland is facing a nearly \$1.5 billion budget deficit because of federal actions and a weakening national economy. Our state does not have the funds to provide additional costly tax breaks for businesses. This legislation will decouple from two federally enacted business tax breaks that will cost Maryland \$155.4 million in FY 2027.

**Background**

In 2025, Congress enacted HR 1, which included more than 100 tax provisions. Although many of these federal tax changes do not directly impact Maryland state taxes, some do. Maryland has rolling conformity to federal tax changes, which means that the state automatically aligns its tax laws with federal changes. About 20 other states also use rolling conformity. There are two important safeguards built into our laws: Maryland doesn't automatically adopt retroactive federal tax changes and we have an automatic one year waiting period for especially costly federal tax changes. This gives the General Assembly time to review and respond if needed. Due to these protections, Maryland is temporarily decoupled from several costly provisions of HR 1.

Notably, big corporations are already paying less in taxes because of the new federal law. Four of the biggest companies in America will pay \$51 billion less in taxes in 2025 because of HR 1.<sup>1</sup> And that only reflects the first six months of the new tax regime. The Maryland Bureau of Revenue Estimates projects that state corporate income tax revenues will decrease significantly as a result of HR 1.

**Qualified Production Activity Deduction**

HR 1 allows businesses to deduct 100 percent of the cost of new production facilities in the first year, rather than spreading the deduction over many years. This is a significant

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<sup>1</sup> Alphabet, Amazon, Meta (Facebook), and Tesla, as reported by the Institute on Taxation and Economic Policy

departure from past tax norms, as generally only machinery and equipment could get an immediate tax write off because of its shorter useful life. Conversely, a building “... was previously not otherwise eligible for full expensing due to its long estimated useful life,” according to the Comptroller’s Office. Instead, companies could take a tax write off for constructing a manufacturing facility, but it was spread out over the useful life of the building.

Importantly, not all businesses will qualify for this federal tax break, as it only applies to businesses that own their newly constructed facility. (There is a narrow exemption for existing facilities that were not used for manufacturing in recent years.) A manufacturer that leases their premises doesn’t qualify.

Notably, there is no legal way to limit this tax break to manufacturing buildings located within Maryland.

The projected revenue loss to the State, according to the Bureau of Revenue Estimates, is substantial: \$39.1 million in FY 2026 and \$131.3 million in FY 2027. Because of the high price tag, Maryland is automatically decoupled for Tax Year 2025. Governor Moore proposed in his budget request that we fully decouple going forward. Other states, including several of our neighbors have acted to decouple from this provision.<sup>2</sup>

### **Business Interest Deduction**

The 2017 federal tax law set annual limits on the ability of businesses with large amounts of debt to deduct expenses related to interest payments on loans. The limitations apply to private equity-backed companies that have sales above \$25 million. HR 1 relaxed these limitations to allow more interest expenses to be deducted. The net result of this tax change is that it makes it cheaper for private equity firms to finance additional acquisitions.

Private equity firms have eliminated at least 1.3 million jobs nationwide<sup>3</sup> through aggressive cost cutting and mandates to maximize profits over customer service and long-term investment. Maryland has not been spared from this trend; we have lost more than 2,200 jobs at companies acquired by private equity firms.<sup>4</sup> The problem extends beyond job losses to consumer protection and quality of care.

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<sup>2</sup> CA, DE, ME, MI, PA, and VA decoupled. DC decoupled but was overrode by Congress. AZ and ID declined to couple.

<sup>3</sup> “Private equity’s role in retail has killed 1.3 million jobs, study says,” 2019, *The Washington Post*

<sup>4</sup> <https://privateequityrisk.org/state/maryland/>

Private equity controlled nursing homes have significantly higher rates of substantiated complaints compared to other nursing homes, and Maryland ranks among the ten worst states on this metric. Similarly, Maryland has experienced growth in private equity investments in medical practices, which is directly associated with rising healthcare costs for consumers.<sup>5</sup>

Relaxing business interest deduction limits will allow private equity firms to finance additional acquisitions through debt and only serves to accelerate these harmful dynamics. The result is predictable: more job loss, more complaints in nursing homes, and higher healthcare costs as private equity prioritizes returns over patient care.

The projected revenue losses for Maryland for this provision are \$7.4 million in FY 2026 and \$24.1 million in FY 2027. Because of the cost, we are automatically decoupled for Tax Year 2025. Twenty other states are decoupled from this federal tax break.<sup>6</sup> Even for those who back the practices of private equity firms, there is no legal way to limit these tax breaks to businesses located within Maryland.

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<sup>5</sup> "Private Equity Investments in Physician Practices in Maryland, " 2025, Maryland Health Care Commission

<sup>6</sup> AR, AZ, CA, CT, DE, ID, IN, MO, MS, NH, NV, OH, PA, SD, TN, TX, VA, WA, WI, WY