Testimony of Michael Mazerov, Resident of Silver Spring

Before the Committee on Ways and Means, Maryland House of Delegates

February 26, 2026

In Support of House Bill 1080, Decoupling Maryland's Income Tax Law from Three Provisions of H.R. 1, "The One, Big, Beautiful Bill Act" of 2025 (OBBBA)

Chair Wilkins, Vice-Chair Feldmark, and members of the Committee, thank you for the opportunity to present testimony this afternoon in support of House Bill 1080. My name is Michael Mazerov, and I'm a resident of Silver Spring. I've testified before this Committee many times in my former role as a Senior Fellow with the Center on Budget and Policy Priorities, but I've retired from the Center and am appearing today only in my personal capacity as an interested Maryland citizen.

H.B. 1080 would decouple Maryland's income tax law from three costly business tax giveaways in President Trump's "One Big Beautiful Bill Act" of 2025. The first is its permanent extension of the so-called Opportunity Zone Program established by the 2017 Trump tax bill and three different kinds of tax breaks for certain capital gains income granted under that program. The second is a reduced tax rate via a special deduction for corporate profits earned on the sale abroad of goods and services produced in the U.S. that's intended to encourage the development of intellectual property through R&D conducted within the United States. The third is a new exclusion from gross income of 25 percent of the interest a bank or other lender earns on loans secured by agricultural, fishing, fish farming, or seafood processing real estate. Because of the way Maryland's tax law is tied to the Internal Revenue Code, it initially allows deductions from taxable income for all these items, and so the bill is written to require so-called addbacks to taxable income for the capital gains, "foreign-derived deduction-eligible income" (FDDEI), and agricultural loan interest, that were deducted for federal purposes, respectively.

Each of these deductions is of questionable merit from a federal tax policy standpoint. For example, in the seven years the Opportunity Zone program has been in place, considerable evidence has accumulated that far from creating jobs for residents of disadvantaged neighborhoods, it has mostly provided tax windfalls to wealthy individuals and corporations investing in luxury hotels and residential real estate that would have been built without the tax breaks. The Foreign Derived Intangible Income deduction (renamed FDDEI under OBBBA) has provided multi-billion-dollar windfalls to hugely profitable corporations like Alphabet/Google and Meta/Facebook that are already incentivized to conduct R&D in the United States by generous federal tax credits. And there is no reason to

think that farmers are having difficulty obtaining loans that are secured by real property to begin with, and no guarantee that OBBBA's reduced tax rate on interest on such loans will actually be passed through to farmers and seafood processors in any case.

Fortunately, you don't have to debate and reach a conclusion about the federal tax policy merits of these tax breaks to know what Maryland should do about them. It should decouple. Why? Because none of them are contingent in any way on the recipients conducting any of the supposedly incentivized activities within Maryland. Maryland, which, like all states and unlike the federal government, has to balance its budget, is forgoing essential corporate and individual income tax revenue to provide tax breaks to activities that may well not be benefiting its economy one bit. Even assuming, for example, that the FDDEI tax break does stimulate more domestic R&D, corporations taxable in Maryland will pay reduced taxes here even if all that R&D occurs elsewhere. That goes a long way toward explaining why 19 states – including New York, New Jersey, Pennsylvania, North Carolina, Illinois, and California – have long decoupled – as Maryland should have done when this giveaway was first implemented in 2018. Likewise, Maryland loses revenue when wealthy state residents or corporations taxable here roll their capital gains into Opportunity Zone Funds, which invest in projects all around the country, not just those located in Maryland.

It is not too late for Maryland to correct the mistake it made by more-or-less reflexively conforming to the FDII and Opportunity Zone tax breaks back in 2018. (H.B. 1080 only decouples from investments in future Opportunity Zones, not those originally designated.) It can also entirely avoid a revenue loss from the tax break for agricultural loans if it approves this bill. I have attached to my testimony two excellent issue briefs written by staff of the Institute on Taxation and Economic Policy (on whose board I sit) making the case for Opportunity Zone and FDDEI decoupling. I thank you again for the opportunity to testify in support of this bill this afternoon, and I respectfully urge a favorable report.

ITEP
INSTITUTE ON TAXATION AND ECONOMIC POLICY

November 12, 2025

State Tax Dollars Shouldn't Subsidize Federal Opportunity Zones

Brief • Eli Byerly-Duke

The Opportunity Zone program, created in 2017 and made permanent under the 2025 tax law, creates a tax break for investments in certain lower-income Census tracts. Our analysis of the program finds:

- Recent changes to the program make modest improvements but fail to fix its key flaw: it benefits wealthy investors more than it benefits disadvantaged communities.
- States that conform to the federal tax breaks for Opportunity Zones will end up diverting resources from in-state priorities while assisting out-of-state investors and high earners.
- Instead, states should decouple from the Opportunity Zone program, preserving vital resources for in-state needs.

States Shouldn't Provide Special Treatment for Opportunity Zones

The federal Opportunity Zone program provides generous tax breaks that drive investor behavior – and it has no business being in state tax codes. Here's why:

Any behavior change is driven by federal law

While the efficacy of the program is unclear, to the extent that these tax breaks are incentivizing any worthwhile projects, this is an incentive driven by *federal* tax breaks. The tax treatment of OZs for state taxes, however, is not related to the federal benefits.

States can't afford to lose the revenue

States that conform to federal Opportunity Zone benefits end up diverting significant state resources from other priorities. In Georgia alone, conformity to the federal OZ program costs about $30 million a year.

Conformity subsidizes investment in other states

By conforming to the OZ program, states would be subsidizing Opportunity Zone projects in other states across the country with in-state tax dollars. That's because the program allows

investors to engage in OZ investment anywhere in the nation, and their investments will receive state tax preferences regardless of the location of the project.

The Opportunity Zone Program Has Not Worked Well so Far

From their inception Opportunity Zones (OZs) suffered from the enormous flaw that there is no requirement that tax-subsidized investments benefit the people who currently live and work in high-poverty neighborhoods. Although modest improvements have been made, Congress did not address this key failure.

Opportunity Zones are geographic areas in which investments can benefit from favorable tax laws. An investor who has made large profits on investments can avoid paying capital gains taxes on those profits by funneling them into an OZ, and in doing so can defer and eventually entirely avoid paying taxes on their capital gains.

Supporters justify the program as an attempt to spur investment in parts of the country with high poverty and low growth. The results are underwhelming. In response to the program, governors designated a portion of eligible tracts as Opportunity Zones. Initially, the requirements were quite broad. Tracts had to have either a 20 percent poverty rate (the nationwide rate is about 11 percent) or a median income less than 80 percent of the median income in the closest metro area.

The program was promoted by wealthy investors, and its tax benefits were designed to flow overwhelmingly to similarly wealthy people. One Joint Committee on Taxation researcher found the average annual income of recipients who received the benefit in 2019 was over $1 million.

However, the results so far indicate that the program has largely failed to reach the populations that most need help. Through tax year 2022, $89 billion in investments went through the program. A team of researchers from the American Enterprise Institute, the U.S. Treasury, and elsewhere found that investors tended to choose projects "in Census tracts with growing populations and home values, in urban areas, within relatively prosperous counties, and in areas of the country experiencing more growth." Of those projects, roughly 75 percent of the investment was in real estate—mostly in the Real Estate and Rental Leasing sector.

These projects were designed to be profitable investment properties for landlords, often high-end apartments and sometimes large suburban homes—not projects designed to benefit existing residents or ones necessarily eligible for other credits like the Low Income Housing Tax Credit. This profile of projects adds to gentrification and affordability concerns for the very residents it claims to help. Thanks to extra disclosure requirements in Ohio, researchers at Good Jobs First analyzed more detailed outcomes in that state. They found "OZs that have received investments tend to have gentrifying characteristics — becoming whiter and richer."

Substantial as the dollar amounts are, assessments of the program are not encouraging. Money was spent in the zones. But those investments did not produce more work for residents—or for anyone, if job postings are any indication. They also did not help spur small business formation or activity. Instead, benefits are largely being captured by corporate landlords. A careful study from the University of California-Irvine using restricted-access government data found that despite its high expense the program produced "limited evidence of any positive effect" on residents' finances. What difference there was between OZs and eligible tracts not selected, the researchers concluded, was likely from governors selecting places that were already growing.

New Tax Law Changed the Program But Did Not Fix Its Flaws

This year federal lawmakers tweaked and made permanent the Opportunity Zone program without changing its basic structure. Changes include:

- Making the program permanent and standardizing the timeline of benefits
- Offering a three times more generous benefit for investments in rural areas
- Narrowing which Census tracts are eligible and creating a recurring 10-year update process to the zones, with the first new map coming into effect in 2027

The limitation of eligible tracts is largely a positive change. Many investments in the existing program went to areas that were already growing and did not need special treatment. A tract now must have median family income below 70 percent (versus 80) of the state or metropolitan area (if the tract is in a metro area) or have a poverty rate of 20 percent and a median family income under a cap of 125 percent of the relevant state or metro area. These changes also eliminated the possibility of selecting tracts contiguous to eligible tracts that did not meet the regular criteria. This will enable better targeting by significantly reducing the number of eligible tracts by about 20 percent. The bill also created new reporting requirements—a crucial change for those who want to verify the effects of the program.

The Opportunity Zone program will now permanently benefit those who invest their capital gains in the following ways:

- Deferral of the initial capital gain for five years
- A 10 percent step-up in basis of their initial gain
- Preferential treatment of further capital gains of their investment, with full exemption for gains invested for 10 years
- A 30 percent step-up in basis for investments in rural areas

For example, instead of paying taxes on $1 million of capital gains, a wealthy investor could park those funds in an Opportunity Zone and immediately delay paying any taxes on the income for five years. If they do eventually pay taxes, the amount will be dramatically reduced, and if they stay invested for a decade, they pay nothing.

There is still no binding requirement that investments benefit existing residents. This is a glaring omission for states considering layering OZs into their own tax systems. Although many modest-income rural communities need investment, the enhanced rural benefits are not related to need.

States Should Fully Decouple From the Federal Opportunity Zone Tax Break

At a time when states are facing a darkening revenue picture and looming federal funding cuts to a range of critical programs, it is common sense for them to decouple from the federal Opportunity Zone program. Some states have already done so.

For instance, California, Mississippi, and North Carolina have decoupled from both individual and corporate Opportunity Zones at the state level. Massachusetts has decoupled from individual Opportunity Zone provisions only, and Pennsylvania has decoupled from corporate OZ provisions.

In all these states, governors have selected OZs and projects in those areas receive the federal benefit for investments sourced from anywhere in the country. In these cases, residents can take advantage of the federal program, but the state retains its own revenue and can invest that money in state.

All told, most states still conform to federal tax treatment under Opportunity Zones. As a result, they further subsidize wealthy investors' tax breaks for investments made far outside of their own states' borders and divert revenue from other investments that could better benefit their residents.

ITEP
INSTITUTE ON TAXATION AND ECONOMIC POLICY

February 19, 2026

It's Time for States to Jettison Nonsensical FDDEI Deductions

Brief • Carl Davis

States often link their tax laws to the federal code in significant ways. Many of these links are justified and can simplify tax administration for both taxpayers and state officials. But in other cases, something can get lost in translation, and states end up copying federal provisions that just don't make sense at the state level. State conformity to the federal government's deduction for Foreign-Derived Deduction Eligible Income (FDDEI) offers a case study in the perils of conforming too casually to federal law, with revenue losses for individual states frequently running in the tens of millions of dollars per year.

The FDDEI deduction is designed to lower the federal corporate tax rate on some profits generated from exports, meaning sales to customers in foreign countries. The deduction, which now stands at 33.34 percent of eligible profits, is the successor to the deduction for Foreign-Derived Intangible Income (FDII), which was created by a major federal tax rewrite enacted in 2017.

The merits of the federal FDDEI deduction are disputed, though one could argue that it at least was created with a certain logic in mind. The same cannot be said for state-level FDDEI deductions. Crucially, it is not necessary to render judgment on the deduction as federal-level policy to decide whether it makes sense for states. It does not.

The FDDEI deduction comes out of pre-apportionment income, meaning the big pool of corporate profit that is tallied up on federal forms. Because of this, federal FDDEI deductions that a company generates from activity in one state will flow through as a tax break being offered by all states with FDDEI deductions. Arizona and Florida, for instance, currently offer FDDEI deductions for export sales originating out of states like California and New York, with no economic benefit for their own states. In fact, ITEP's analysis of corporate financial disclosures suggests that a significant share of these deductions has gone to tech companies headquartered in California and Washington. In its most recent financial statement, for instance, Netflix revealed that it expects to receive a staggering $657 million federal tax cut in 2025 alone from this deduction. The fact that the federal government has decided to levy a lower tax rate on FDDEI profits is simply not a compelling rationale for states to do the same. The states, of course, get to set their own tax rates.

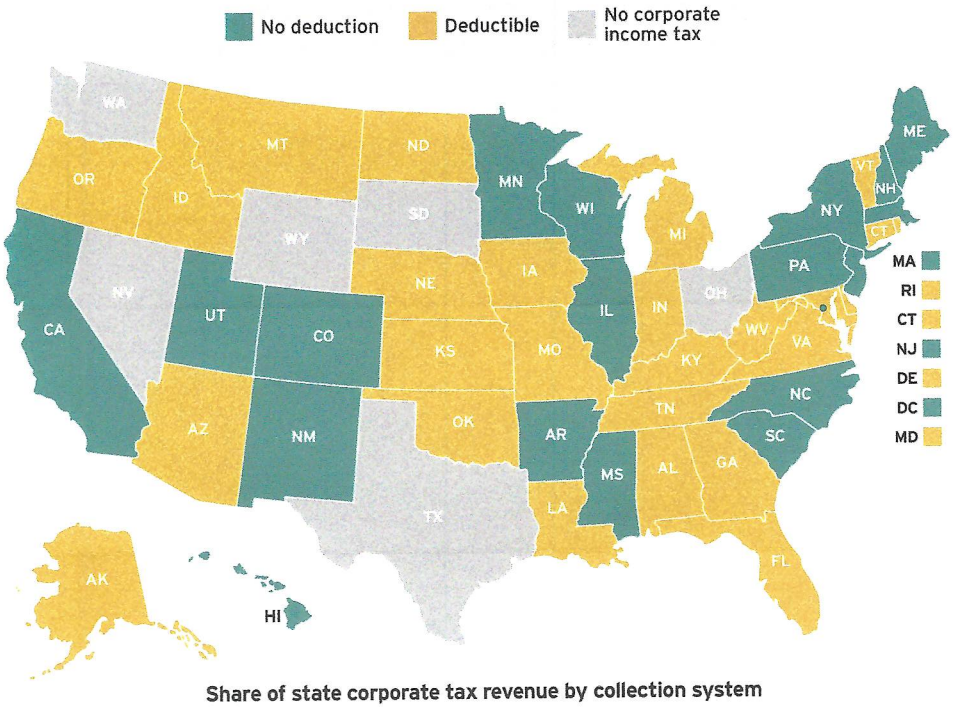
Moreover, in most states with FDDEI deductions, there is yet another reason why that deduction is nonsensical. Unlike at the federal level, most states use what's known as single sales factor apportionment to determine the share of a company's profit that it will tax. If 5 percent of a company's sales occur in a state, for instance, then 5 percent of that company's profits are fair game to tax. The intent of the single sales factor approach is to tax profits arising from sales to customers located within a state's borders, while *exempting* profits from sales into other states or countries. The upshot is that those states using single sales factor apportionment are *already* aiming to exclude export profits from their state tax bases, and a 33.34 percent FDDEI deduction

for export profits goes much further and actually subsidizes them (again, regardless of whether the sales originate in that state or not).

Figure 1

State Decoupling from FDDEI

19 states have decoupled from the deduction for Foreign-Derived Deduction Eligible Income (FDDEI)



Share of state corporate tax revenue by collection system

Source: Fort, Bruce, "State Taxation of MNEs Under the TCJA: It's Time for a Policy Reassessment," Tax Notes State, June 2024. Thomson Reuters Checkpoint Tax. U.S. Census State and Local Finance data. ITEP research. Current as of February 1, 2026.

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Nineteen states have decoupled from FDDEI deductions, while 26 states continue to offer them today. In many of these states, these deductions appear to be holdovers from the very busy 2018 slate of state legislative sessions. The original version of this deduction (FDII) was signed into law in late December 2017, alongside a host of other complex and highly consequential corporate tax changes, and states coming into legislative sessions that next month had precious little time to puzzle through the best means of linking up to a dramatically reworked federal tax code. After that, once a new deduction is on the books, it tends to stick around for a while.

With the transformation from FDII to FDDEI, this is a natural time for states to revisit whether this deduction makes sense for them. Most large states with corporate income taxes have already removed this deduction for their codes, and our analysis of state tax revenue data reveals that around three-quarters of state corporate income tax revenue is being collected in states that do not provide FDDEI deductions. In other words, multinational companies are already accustomed to paying most of their state corporate tax liability under rules that do not provide for FDDEI deductions.

In the states allowing FDDEI deductions, the revenue loss associated with them is potentially significant. Colorado, the most recent state to repeal this policy, estimated in September that

doing so will boost state revenues by more than $72 million per year. In Oregon, officials have placed the price tag of the deduction at roughly $60 million per year, while in Georgia the official estimate is $24 million. The other states offering this deduction do not report its cost in their official tax expenditure reports, making it difficult for lawmakers to know exactly how much revenue is being forgone.

To begin to shed some light on this question, Figure 2 presents rough estimates of the state revenue loss created by FDDEI deductions. These estimates were compiled by starting from the $14.3 billion nationwide estimate produced by Congress's Joint Committee on Taxation, apportioning it across states using a method described in previous ITEP research, and then scaling it based on the difference between state and federal corporate income tax rates. This calculation yields an estimate for Oregon that almost exactly matches the official tally from the state's Department of Revenue, and it comes within 25 percent of the estimate released by Colorado Legislative Council Staff. The estimate in Figure 2 for Georgia, however, is significantly higher than the one published in the state's official tax expenditure report. The reason for this discrepancy is unclear, but lawmakers in any state seeking to repeal the FDDEI deduction would be wise to request an official revenue estimate from state tax authorities who have access to confidential taxpayer data that can be used to produce more refined estimates than those presented here.

Figure 2

Estimated Revenue Impact of State FDDEI Deductions

Impact in 2026, figures in millions

State	Revenue impact	State	Revenue impact
Alabama	-$39.9	Maryland	-$93.0
Alaska	-$14.6	Michigan	-$102.3
Arizona	-$63.4	Missouri	-$43.1
Connecticut	-$65.0	Montana	-$11.9
Delaware	-$18.0	Nebraska	-$18.0
Florida	-$224.9	North Dakota	-$7.2
Georgia*	-$99.2	Oklahoma	-$24.5
Idaho	-$15.9	Oregon**	-$59.8
Indiana	-$61.6	Rhode Island	-$13.5
Iowa	-$41.2	Tennessee	-$80.6
Kansas	-$33.9	Vermont	-$8.4
Kentucky	-$36.3	Virginia	-$99.6
Louisiana	-$43.5	West Virginia	-$9.3
		TOTAL	**-$1,328.6**

** State officials estimate approximately $24 million per year.*
*** State officials estimate approximately $60 million per year.*

Revenue implications aside, FDDEI deductions should be repealed for policy reasons alone as they do not serve a legitimate purpose at the state level. These deductions have flown under the radar for too long and, with federal tax conformity top of mind in many states, now is the perfect time to pursue this overdue reform.