

WES MOORE  
*Governor*

ARUNA MILLER  
*Lieutenant Governor*



YAAKOV "JAKE" WEISSMANN  
*Secretary*

MARC L. NICOLE  
*Deputy Secretary*

**TITLE: HB801 Income Tax - Addition Modifications - Business Stock Gains, Fines, Penalties, and Bonus Depreciation**

**DATE: February 26th 2026**

**COMMITTEE: Ways and Means**

**POSITION: Letter of Concern**

**SUMMARY OF BILL:** The bill would “decouple” Maryland from (i.e., reject) four state tax policies related to federal-state tax conformity (i.e., the state using federal rules and calculations in its state tax code). The bill would eliminate tax benefits known as “bonus depreciation” and Section 179 expensing from the Maryland tax return. Broadly speaking, bonus depreciation and Section 179 expensing are a tax benefit tied to capital investments, but the latter is restricted to small businesses. H.R. 1 (2025) significantly expanded both policies. The bill would also eliminate an exemption for specific types of business investments, and end a deduction for government payments that bring a company into compliance with the law (i.e., restitution payments). H.R. 1 did not alter these latter two tax policies.

**EXPLANATION:** The Department of Budget and Management (DBM) is charged with submitting a balanced budget to the General Assembly annually and will work with the General Assembly to achieve structural balance over the long term. Simultaneously, the Governor and General Assembly must enact policies that strengthen the state’s economy, and support Maryland’s residents and businesses. The recent actions of the federal government have complicated both missions.

Maryland “conforms” with some federal individual and corporate income tax laws. That is, the state uses some federal rules and calculations in its own state tax code. Additionally, Maryland’s federal-state tax conformity is “rolling,” which means that if Congress changes any tax laws that Maryland conforms with, those state tax laws are also simultaneously and automatically changed. However, while federal-state conformity can benefit state taxpayers and administrators,

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conforming with a federal policy change is always a state policy choice (in Maryland and all other states). Thus, Maryland policymakers are responsible for analyzing all tax conformity changes, and deciding if those tax changes fit the state's priorities and budget.

H.R. 1 (2025) changed many individual and corporate income tax laws that Maryland conforms with. The Governor analyzed all of these tax conformity changes, and weighed the pros and cons of each policy for both Maryland taxpayers and Maryland's budget. Ultimately, his FY 2027 budget proposal rejected unproven and expensive tax policies, but conformed with effective tax policies that will make Maryland's tax system simpler and more competitive.

HB 801 would end two tax benefits on the Maryland tax return: bonus depreciation and Section 179 expensing. Currently, only manufacturing businesses can access these benefits on the Maryland tax return (see SB 317, 2017); all eligible businesses can access both on the federal tax return. H.R. 1 significantly expanded both benefits. The Governor's budget proposal conformed with the changes to Section 179 in order to support small businesses. In an effort to maintain fiscal balance, the Governor's budget proposed decoupling from the federal tax law for bonus depreciation, while still allowing eligible businesses to access it at the lower benefit level that was set in state law for tax year 2026 prior to H.R. 1. HB 801 would eliminate both policies, and result in businesses that previously benefited from them completely losing the tax benefits on their Maryland tax return.

HB 801 would also eliminate two federal-state tax policies unaffected by H.R. 1: the qualified small business stock (QSBS) exemption and a rule that lets businesses deduct some government payments that bring a company into compliance with the law (i.e., restitution payments). Both the QSBS exemption and deduction for restitution payments are complicated tax policies that have pros and cons; however both policies were created by the Tax Cuts and Jobs Act (TCJA) and thus have existed in the Maryland tax code since tax year 2018. Thus, decoupling from these policies in 2026 would remove an existing state tax.

The Governor's tax proposals are disciplined and strategic in protecting essential services, but they also embrace proven tax policies that will help Maryland businesses make critical private sector investments, create jobs, and grow Maryland's economy.

**For additional information, contact Dana Phillips at**

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# Maryland

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