

WES MOORE
Governor

ARUNA MILLER
Lieutenant Governor



YAAKOV "JAKE" WEISSMANN
Secretary

MARC L. NICOLE
Deputy Secretary

TITLE: HB880 Maryland Income Tax - Decoupling From Amendments to the Internal Revenue Code - Depreciation and Business Interest Expenses

DATE: February 26th 2026

COMMITTEE: Ways and Means

POSITION: Letters of Concern

SUMMARY OF BILL: The bill would “decouple” Maryland from (i.e., reject) two state tax policy changes that resulted from H.R. 1 (2025). One, it would reject changes to a tax calculation that limits what businesses can deduct in business interest. Two, it would eliminate a tax benefit known as the qualified production property deduction..

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, 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

45 Calvert Street • Annapolis, MD 21401-1907

Tel: 410-260-7041 • Fax: 410-974-2585 • Toll Free: 1-800-705-3493 • TTY Users: Call via Maryland Relay

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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 880 would reverse one of the Governor's tax conformity proposals and confirm another.

HB 880 would decouple Maryland from H.R. 1's changes to a tax calculation that limits what businesses can deduct in business interest. Thus, if HB 880 was enacted, Maryland businesses would need to use one calculation for the business interest deduction on their federal tax return and another calculation on their Maryland tax return. Further, the business interest deduction calculation in H.R. 1 is not a new policy; it was both federal and Maryland law from tax year 2018 to tax year 2021. That is, if Maryland follows the Governor's proposal to maintain conformity with the federal rule—as the state has previously done—it would simply return Maryland to a previous version of State tax law. Alternatively, if Maryland enacts HB 880, it would permanently require Maryland's business taxpayers to use a separate, state-specific calculation for the business interest deduction limitation—a state-specific calculation that would increase a business's Maryland tax liability relative to a policy that maintains conformity.

HB 880 would also eliminate a new tax benefit created by H.R. 1 known as the qualified production property deduction. The Governor's budget proposal also decoupled from this new tax policy because it is unproven, temporary, and expensive. Further, because this is a completely new tax policy that was not available on the tax year 2025 Maryland tax return (the state's conformity trigger law prevented it from taking effect that year), no Maryland taxpayer could lose this benefit because, if the state decouples, it will never have existed.

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
(410) 260-6068 or dana.phillips@maryland.gov**

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