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**HB 1080 Testimony – Income Tax – Addition Modifications – Excluded Opportunity Fund
Gains, Foreign-Derived Deduction Eligible Income, and Interest
February 26, 2026 – Ways and Means Committee**

Chair Wilkins, Vice Chair Feldmark, and Colleagues,

Thank you for the opportunity to present on HB 1080, legislation to de-couple Maryland from new tax deductions included in the U.S. Congress's passage of H.R. 1, the federal budget reconciliation bill last year.

What The Bill Does:

HB 1080 would decouple Maryland's tax system from the Internal Revenue Code in three areas:

- **Opportunity Zones:** Prohibits the Governor of Maryland from nominating a neighborhood or region for designation as an Opportunity Zone, thereby preventing investors from receiving tax benefits for investments in such zones
- **Foreign-derived Income:** Prohibits taxpayers from deducting from their taxes foreign-derived income
- **Interest on Mortgages and Loans Secured by Rural and Agricultural Mortgage Real Estate:** Prohibits banks from deducting from their corporate taxes income from interest paid on loans that secure rural and agricultural, aquaculture, and fishing/seafood processing real estate

H.R. 1 – Federal Budget Reconciliation

H.R. 1 made several changes to the federal tax code, including the extension of temporary tax cuts from the 2017 Tax Cuts and Jobs Act (TCJA), changing federal tax brackets, and reducing personal income tax burdens. H.R. 1 also includes the introduction of new tax deductions and the modification or elimination of many other tax deductions. HB 1080 would de-couple Maryland from certain tax deductions created or modified under H.R. 1, through excluding certain deductions from being used when calculating State of Maryland taxable income.

Specifically, the State would exclude corporations from claiming deductions on capital gains in H.R.1-defined opportunity zones, foreign-derived deduction eligible income, and loan interest backed by rural or agricultural property. Additionally, the bill would prohibit the Governor from nominating any census tract to become an opportunity zone.

Due to the changes to the tax code from H.R. 1, Maryland will experience a negative impact on both the General Fund revenue and Special Funds revenues in the next two Fiscal Years. General Funds revenue is projected to decrease by \$77.9 million in FY2026 and a further \$71.4 million in FY2027. Special Funds revenues are projected to decrease by \$17.2 million in FY2026 and a further \$50.1 million in FY 2027. Personal income taxes are initially projected to decrease by \$21.0 million in FY2026 before rebounding to a projected increase of \$88.2 million in FY2027. However, this increase will be negated by the projected decrease in the corporate tax revenue, amounting to a decrease of \$74.1 million in FY2026 and a further decrease of \$209.8 million in FY2027.

From the Bureau of Revenue Estimates [“60-day Report”](#) – “TCJA markedly impacted our State revenue structure, not only in dollar amount but by also introducing uncertainty over how its impacts would flow through to the Maryland tax system compared to its anticipated federal impact. It is likely that [H.R. 1] will follow a similar path.”

Opportunity Zones

What H.R. 1 Did:

- The 2017 TCJA created special tax breaks for investments made in Opportunity Zones, supposedly generating economic redevelopment of economically distressed communities.
- The program was supposed to sunset at the end of 2026, but was made permanent by H.R. 1 Section 70421
 - New opportunity zones were created every 10 years
 - The definition of low-income areas was tightened from 80% of state or metropolitan median income to 70%, and each census tract must have a poverty rate of at least 20%

Why We Need to Decouple:

Opportunity Zones Aren’t Working

- There is substantial evidence that the opportunity zone program has created few jobs in disadvantaged communities, while providing tax breaks to wealthy individuals and corporations.
- Several studies have found that opportunity zones having “very limited” impacts on job creation¹ to directing only 3.5% of total funding to operating businesses and instead investing heavily in real estate developers.² Additionally, researchers have found that

¹ “What is the Impact of Opportunity Zones on Employment Outcomes?” Rachel Atkins et. al. August 2020, NYU Stern School of Business.

² https://www.urban.org/research/publication/early-assessment-opportunity-zones-equitable-development-projects/view/full_report

opportunity zone investments have not been distributed equitably, with women, minority, and lower-income stakeholders largely being shut out.³

- An analysis of opportunity zones by the Urban Institute found that “although there are compelling examples of community benefit, the incentive on the whole is not living up to its economic and community development goals. The incentive’s structure makes it harder to develop projects with community benefit in places with greatest need. In contrast, opportunity zones are providing the biggest benefits to projects with the highest returns, which are rarely aligned with equitable development.”³

Opportunity Zones Investors are Ultra Wealthy

- Developers and opportunity zone fund managers surveyed by researchers mostly report that tax incentives were not critical to their project, as some had already committed to their projects before their opportunity zone even existed.³
- As documented in an August 2019 article published by the *New York Times*, the opportunity zone tax breaks will result in billions of dollars in untaxed profits for wealthy investors, including members of President Trump’s family and many real estate developers.⁴ *“Opportunity zones are intended to attract investors to distressed areas,”* the article stated, *“but so far, much of their money is going to create luxury projects... While some money is flowing to poor communities, the most visible impact so far has been to set off a feeding frenzy among the wealthiest Americans. They are poised to reap billions in untaxed profits on high-end apartment buildings and hotels in trendy neighborhoods, storage facilities that employ only a handful of workers or student housing in bustling college towns.”*

Opportunity Zone Investors Get a Huge Tax Break

- Under the new federal law, investors in opportunity zone funds get three significant benefits. First, they can defer paying capital gains taxes on their original investment until for five years based on the date the investment is made, which allows them to invest the entire sum and thereby potentially earn even more money. Second, their tax liability is reduced by 10% if they maintain their opportunity zone investment for at least five years. Third, after 10 years, **the investor pays no capital gains taxes** on their profit from the sale of an opportunity zone investment.

³ <https://www.urban.org/urban-wire/opportunity-zone-incentive-isnt-living-its-equitable-development-goals-here-are-four-ways-improve-it>

⁴ <https://www.nytimes.com/2019/08/31/business/tax-opportunity-zones.html>

- The California Budget and Policy Center provides an example of how lucrative these tax breaks are.⁵ Imagine a Marylander who invests \$100,000 in capital gains in an opportunity zone fund. They leave the money invested for 10 years and get an annual rate of return of 8%. In total, the resident would now have \$215,000—a profit of \$115,000. Because of the tax breaks, they would pay \$20,230 in federal taxes and save an additional \$30,940 on their federal taxes. This results in an effective tax rate of only 9.4% versus the 20% they otherwise would have owed on regular capital gains.

Foreign-Derived Deduction Eligible Income

What H.R. 1 Did:

- Corporations pay a lower tax rate on a portion of their foreign derived income as an incentive to repatriate intellectual property back into the U.S. (so that it can be taxed here in the future)
- H.R. 1 Section 70321: Increases the deduction starting in Tax Year 2026
- H.R. 1 Section 70322: adds another exemption to what is considered gross income for intangible property

Why We Need to Decouple:

- This deduction has proven to be more costly than expected and it's not a state responsibility to incentivize U.S.-based intellectual property development
- From the 60-day report: "OBBS reduces the tax burden on this income relative to prior law enacted by TCJA, resulting in a revenue loss at the federal level. However, if these provisions are successful in reducing profit shifting, it may result in a larger taxable base for State corporate income tax purposes. TCJA established the general framework that is being modified by OBBS. The State revenue impact is ambiguous and is unlikely to be directly proportional to the federal impact. Therefore, the State revenue impact of these provisions, which are discussed below, is scored as indeterminate. As a result, these provisions do not trigger automatic decoupling but create uncertainty over State revenues and could be impactful for certain Maryland corporations."

Interest on Loans Backed by Rural or Agricultural Real Property

What H.R. 1 Did:

- H.R. 1 Section 70435 excludes 25% of interest received by banks and insurance companies on mortgages and loans secured by rural and agricultural, aquaculture, and fishing/seafood processing real estate.

⁵ <https://calbudgetcenter.org/resources/the-federal-opportunity-zones-program-and-its-implications-for-california-communities/>

Why We Need to Decouple:

- There is no legal way to limit mortgages on properties in Maryland.
- It would be better to directly help farmers, fish/seafood processors, and other food producers, rather than give tax breaks to banks.

Maryland faces multiple challenges to its revenue structure. First, due to cutbacks and firings by the Trump administration, approximately 25,000 Marylander's lost their jobs. Private sector jobs were lost in related industries such as professional, scientific, and technical services.

Additionally, severe cuts in federal grants, contracts, and other payments provided to Maryland have impacted hospitals, universities, nonprofits, and other institutions' ability to provide much-needed services. Second, adjustments to tax laws increase uncertainty and add complexity for taxpayers. As a result, revenue forecasting is considerably more complex and far less predictable.

By decoupling tax breaks for Opportunity Zones, foreign-derived deduction eligible income, and tax breaks for banks on mortgages for rural, agricultural, and aquaculture real estate we can ensure a level of clarity and predictability for Maryland's taxpayers and fiscal leaders, helping to mitigate the impact of H.R. 1 on our state's revenues.

Thank you for your consideration and I urge a favorable report for HB 1080.