

Department of Legislative Services  
 Maryland General Assembly  
 2026 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 133 (Delegate Bouchat, *et al.*)  
 Ways and Means

Income Tax and Sales and Use Tax - Rate Reductions and Alterations

This bill (1) repeals the State’s ordinary individual income tax rates and brackets and imposes a 3% flat income tax rate on Maryland taxable income for taxpayers with federal adjusted gross income (AGI) in excess of \$10,000; (2) increases the net capital gain surtax rate from 2% to 3%, applies the surtax to all taxpayers regardless of federal AGI, and exempts from the surtax the first \$10,000 of net capital gain of an individual who is at least 65 years old; (3) reduces the corporate income tax rate from 8.25% to 3%; (4) reduces the general State sales and use tax rate and the sales and use tax rates imposed on the retail sale of alcoholic beverages and adult-use cannabis to 3%; and (5) repeals the 3% sales and use tax on data and information technology (IT) services. **The bill takes effect July 1, 2026. The income tax provisions apply to tax year 2026 and beyond.**

Fiscal Summary

**State Effect:** In FY 2027, general fund revenues decrease by an estimated net of \$13.3 billion, special fund revenues decrease by an estimated net of \$843.2 million, and special fund expenditures decrease by an estimated \$93.9 million, as discussed below. Future years reflect annualization, current revenue forecasts, and existing revenue distribution provisions. As also discussed below, general fund expenditures increase by an estimated \$14.3 million in FY 2027 and \$4.7 million in FY 2028.

(\$ in millions)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
GF Revenue	(\$13,253.0)	(\$11,603.0)	(\$12,030.6)	(\$12,446.3)	(\$12,926.9)
SF Revenue	(\$843.2)	(\$778.8)	(\$813.8)	(\$841.4)	(\$885.0)
GF Expenditure	\$14.3	\$4.7	\$0	\$0	\$0
SF Expenditure	(\$93.9)	(\$69.5)	(\$79.1)	(\$86.2)	(\$90.5)
Net Effect	(\$14,016.6)	(\$12,317.0)	(\$12,765.2)	(\$13,201.6)	(\$13,721.4)

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

**Local Effect:** Local revenues decrease by an estimated \$96.9 million in FY 2027, \$73.2 million in FY 2028, and similar amounts annually thereafter, as discussed below. Local expenditures are not affected.

**Small Business Effect:** Meaningful.

## Analysis

### Current Law/Bill Summary:

#### *Personal Income Tax*

**Exhibit 1** shows the State’s individual income tax rates and brackets under current law. The Budget Reconciliation and Financing Act (BRFA) of 2025 increased the top marginal income tax rate from 5.75% to 6.50% for Maryland taxable income in excess of \$1,000,000 (\$1,200,000 for joint filing types). The Act also increased the marginal tax rate applied to taxable income from \$500,001 up to \$1,000,000 (for joint filing types, taxable income from \$600,001 up to \$1,200,000) from 5.75% to 6.25%.

### Exhibit 1 State Individual Income Tax Rates under Current Law

<b>Single, Dependent, Married Filing Separately</b>		<b>Joint, Surviving Spouse, Head of Household</b>	
<u>Rate</u>	<u>Maryland Taxable Income</u>	<u>Rate</u>	<u>Maryland Taxable Income</u>
2.00%	\$1-\$1,000	2.00%	\$1-\$1,000
3.00%	\$1,001-\$2,000	3.00%	\$1,001-\$2,000
4.00%	\$2,001-\$3,000	4.00%	\$2,001-\$3,000
4.75%	\$3,001-\$100,000	4.75%	\$3,001-\$150,000
5.00%	\$100,001-\$125,000	5.00%	\$150,001-\$175,000
5.25%	\$125,001-\$150,000	5.25%	\$175,001-\$225,000
5.50%	\$150,001-\$250,000	5.50%	\$225,001-\$300,000
5.75%	\$250,001-\$500,000	5.75%	\$300,001-\$600,000
6.25%	\$500,001-\$1,000,000	6.25%	\$600,001-\$1,200,000
6.50%	Excess of \$1,000,000	6.50%	Excess of \$1,200,000

Source: Department of Legislative Services

*Under the bill*, the ordinary State individual income tax rates are repealed, and a flat tax rate of 3% is applied to Maryland taxable income for individuals and joint filers with federal AGI in excess of \$10,000.

#### *Net Capital Gain Surtax*

The BRFA of 2025 imposes a 2% surtax for taxpayers with federal AGI in excess of \$350,000 on certain net capital gain included in Maryland AGI. The surtax does not apply to gain from the sale or exchange of a primary residential dwelling sold for less than \$1.5 million; assets held in specified retirement savings plans; cattle, horses, or breeding livestock held for more than 12 months; certain land subject to a conservation, agricultural, or forest preservation easement; § 179 eligible property; or affordable housing owned by a nonprofit organization. The Comptroller must distribute 37.5% of the proceeds from the surtax to the Transportation Trust Fund (TTF).

*Under the bill*, the net capital gain surtax increases from 2% to 3% and the \$350,000 federal AGI threshold is repealed; thus, the 3% additional tax applies broadly to taxpayers with net capital gain regardless of the amount of their federal AGI. The bill does, however, exempt from the surtax the first \$10,000 of net capital gain of an individual who is at least 65 years old. It is unclear whether the \$10,000 exemption applies on a per-spouse basis for jointly filing spouses who are each at least 65 years old.

#### *Corporate Income Tax*

A tax rate of 8.25% is applied to a corporation's Maryland taxable income. *Under the bill*, the corporate income tax rate is reduced to 3%.

The majority of corporate income tax revenues is distributed to the general fund, while 6% is distributed to the Higher Education Investment Fund (HEIF) and an additional specified percentage is distributed to the Gasoline and Motor Vehicle Revenue Account (GMVRA) within TTF. Chapter 240 of 2022 increased the percentage of corporate income tax revenues that is distributed to GMVRA (minus specified distributions for administrative costs) from 17.2% to 20% for fiscal 2024, 21% for fiscal 2025, 22% for fiscal 2026 and 2027, and 20% for fiscal 2028 and beyond. Chapter 240 also increased the percentage of GMVRA funds that is distributed to local governments in the form of local highway user revenue grants. Chapter 411 of 2024 requires the Comptroller to distribute to the Strategic Energy Investment Fund (SEIF) certain income tax revenue from corporations that is attributable to qualified data centers that are operational on or after January 1, 2026.

### *Sales and Use Tax*

The general State sales and use tax rate is 6%. Higher sales and use tax rates apply to the retail sale of alcoholic beverages and adult-use cannabis (as discussed further below), which are taxed at 9% and 12%, respectively. *Under the bill*, the general State sales and use tax rate is reduced to 3%, as are the sales and use tax rates applicable to the sale of alcoholic beverages and adult-use cannabis.

The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$6.1 billion in fiscal 2026 and \$6.2 billion in fiscal 2027, according to the December 2025 revenue forecast.

### *Adult-Use Cannabis*

Chapters 254 and 255 of 2023 imposed a 9% sales and use tax on the retail sale of adult-use cannabis. The BRFA of 2025 increased the tax rate to 12% beginning in fiscal 2026. The first 25% of cannabis tax revenues are distributed to the general fund. After distributions to the Cannabis Regulation and Enforcement Fund and, effective October 1, 2026, the Department of Social and Economic Mobility (DoSEM) to defray the operating and administrative expenses of the Maryland Cannabis Administration (MCA) and Office of Social Equity (OSE), respectively, remaining revenues are distributed to the Community Reinvestment and Repair Fund (CRRF) (35% through fiscal 2033 only); the Cannabis Public Health Fund (CPHF) (5%); the Cannabis Business Assistance Fund (CBAF) (5% through fiscal 2028 only); counties (5% direct allocation); and the general fund (50% through fiscal 2028, 55% in fiscal 2029-2033, and 90% in fiscal 2034 and beyond). Cannabis tax revenues are projected to total \$117.8 million in fiscal 2026 and \$136.5 million in fiscal 2027.

### *Data and IT Services*

Beginning in fiscal 2026, the BRFA of 2025 expands the definition of taxable services under the State sales and use tax to include data and IT services described under North American Industrial Classification System (NAICS) sectors 5132, 518, 519, and 5415. (NAICS sector 5132 includes software publishing services and NAICS sectors 518, 519, and 5415 include, respectively, (1) computing infrastructure providers, data processing, web hosting, and related services; (2) web search portals, libraries, archives, and other information services; and (3) computer systems design and related services.) Among other changes, the Act imposes a 3.0% sales and use tax on these services and distributes the revenue to the general fund. The Act specifies that the sales and use tax on data and IT services does not apply to (1) sales of cloud computing services to a qualified cybersecurity business or (2) sales to or by a qualified company in an emerging technology

development area, which encompasses quantum computing research and development at the University of Maryland, College Park Campus.

*Blueprint for Maryland's Future Fund*

Chapter 33 of 2022 altered the distribution of sales and use tax revenues beginning in fiscal 2023. Chapter 33 requires the Comptroller, after making certain other distributions, to pay to the Blueprint for Maryland's Future Fund (BMFF) the following percentage of the remaining sales and use tax revenues:

- 9.2% for fiscal 2023;
- 11.0% for fiscal 2024;
- 11.3% for fiscal 2025;
- 11.7% for fiscal 2026; and
- 12.1% for fiscal 2027 and each subsequent fiscal year.

Chapter 33 also repealed the distribution of sales and use tax revenues to the BMFF from marketplace facilitators, certain out-of-state vendors, and specified digital products or digital codes.

**State Revenues:** Exhibit 2 displays the bill's effects on State revenues by provision and fund. As shown in the exhibit, the bill results in an estimated \$14.1 billion net reduction in State revenues, including a \$13.3 billion net reduction in general fund revenues. Future years reflect current revenue forecasts, annualization, and existing revenue distribution provisions. This analysis does not account for any resulting impact on the Maryland Department of Transportation's ability to meet minimum debt service coverage requirements.

**Exhibit 2**  
**State Revenue Effects**  
**Fiscal 2027-2031**  
**(\$ in Millions)**

	<b><u>FY 2027</u></b>	<b><u>FY 2028</u></b>	<b><u>FY 2029</u></b>	<b><u>FY 2030</u></b>	<b><u>FY 2031</u></b>
<b><i>By Provision</i></b>					
CIT Rate Reduction	(\$1,943.2)	(\$1,637.8)	(\$1,729.2)	(\$1,772.5)	(\$1,906.0)
Ordinary PIT Rate Alterations	(7,689.5)	(5,918.6)	(6,147.4)	(6,386.8)	(6,627.2)
Net Capital Gain Surtax Alterations <sup>1</sup>	335.8	256.0	260.2	263.3	267.2
General SUT Rate Reduction <sup>2</sup>	(3,850.8)	(4,028.9)	(4,130.6)	(4,247.2)	(4,372.2)
Alcoholic Beverages SUT Rate Reduction <sup>3</sup>	(242.2)	(245.8)	(249.5)	(253.2)	(257.0)
Adult-Use Cannabis SUT Rate Reduction <sup>4</sup>	(97.3)	(102.2)	(122.3)	(143.8)	(146.7)
Data and IT Services Tax Repeal	(609.0)	(704.5)	(725.7)	(747.4)	(769.9)
<b><i>By Fund</i></b>					
General Fund	(\$13,253.0)	(\$11,603.0)	(\$12,030.6)	(\$12,446.3)	(\$12,926.9)
BMFF	(421.5)	(431.9)	(442.1)	(454.0)	(466.9)
CBAF	(3.0)	(3.7)	0.0	0.0	0.0
CPHF	(3.0)	(3.7)	(4.8)	(5.6)	(5.7)
CRRF	(21.3)	(26.1)	(33.3)	(39.2)	(40.0)
HEIF	(116.6)	(98.3)	(103.8)	(106.3)	(114.4)
RCDF	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
SEIF	(5.9)	(6.2)	(6.7)	(6.5)	(6.7)
TTF	(271.5)	(208.5)	(222.8)	(229.4)	(250.9)
<b>Net State Revenue Effect</b>	<b>(\$14,096.1)</b>	<b>(\$12,381.8)</b>	<b>(\$12,844.4)</b>	<b>(\$13,287.7)</b>	<b>(\$13,811.9)</b>

BMFF: Blueprint for Maryland's Future Fund  
CBAF: Cannabis Business Assistance Fund  
CIT: corporate income tax  
CPHF: Cannabis Public Health Fund  
CRRF: Community Reinvestment and Repair Fund  
HEIF: Higher Education Investment Fund

IT: information technology  
PIT: personal income tax  
RCDF: Racing and Community Development Financing Fund  
SEIF: Strategic Energy Investment Fund  
SUT: sales and use tax  
TTF: Transportation Trust Fund

<sup>1</sup> Estimate shown does not account for the effect of the bill's \$10,000 exemption for individuals age 65 or older, which cannot be reliably estimated at this time due to data limitations. Thus, actual revenues under this provision of the bill may be less.

<sup>2</sup> Estimate shown assumes a 2.8% increase in taxable sales due to the sales and use tax rate reduction.

<sup>3</sup> Estimate shown assumes a 5.5% increase in taxable sales due to the sales and use tax rate reduction.

<sup>4</sup> Estimate shown assumes a 6.0% increase in taxable sales due to the sales and use tax rate reduction.

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

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**State Expenditures: Exhibit 3** displays the bill’s effects on State expenditures by fund. As shown in the exhibit, the bill results in an estimated \$79.5 million net reduction in State expenditures in fiscal 2027. This includes a \$14.3 million increase in general fund expenditures for MCA and DoSEM. Under the bill’s reduction in the sales and use tax rate for adult-use cannabis, cannabis tax revenues are insufficient to fully offset MCA and OSE operating and administrative costs in fiscal 2027 and 2028 – thus, it is assumed that general funds are needed to backfill lost special fund operating revenues.

This estimate also reflects (1) the estimated decrease in TTF expenditures for local highway user revenue grants due to the bill’s reduction in the corporate income tax rate and (2) the estimated decrease in CRRF distributions due to the bill’s reduction in the sales and use tax rate applied to the retail sale of adult-use cannabis. Future years reflect current revenue forecasts, annualization, projected MCA and OSE operating expenses, and applicable revenue distribution provisions.

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**Exhibit 3**  
**State Expenditure Effects**  
**Fiscal 2027-2031**  
**(\$ in Millions)**

	<b><u>FY 2027</u></b>	<b><u>FY 2028</u></b>	<b><u>FY 2029</u></b>	<b><u>FY 2030</u></b>	<b><u>FY 2031</u></b>
General Fund	\$14.3	\$4.7	\$0.0	\$0.0	\$0.0
CRRF	(\$21.3)	(\$26.1)	(\$33.3)	(\$39.2)	(\$40.0)
TTF	(\$72.5)	(\$43.4)	(\$45.8)	(\$46.9)	(\$50.5)
<b>Net State Expenditure Effect</b>	<b>(\$79.5)</b>	<b>(\$64.8)</b>	<b>(\$79.1)</b>	<b>(\$86.2)</b>	<b>(\$90.5)</b>

CRRF: Community Reinvestment and Repair Fund

TTF: Transportation Trust Fund

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

The Comptroller’s Office has advised the Department of Legislative Services (DLS) that additional personnel resources – including a minimum of five contractual attorneys for a period of at least 18 months and two full-time regular revenue examiners – are needed in order to implement the bill’s changes and respond to requests for guidance from taxpayers and practitioners. Related estimated costs exceed \$780,000 in fiscal 2027, assuming a 90-day start-up delay from the bill’s July 1, 2026 effective date. DLS is unable to independently verify the Comptroller’s personnel needs at this time and advises that the Comptroller’s Office can request additional resources through the annual budget process as needed. Any related general fund expenditures are not reflected in this analysis.

**Local Revenues:** Exhibit 4 displays the bill’s estimated effects on local revenues. As shown in the exhibit, local revenues decrease by an estimated \$96.9 million in fiscal 2027 due to reduced local highway user revenues, counties’ share of reduced cannabis sales and use tax revenues, and a reduction in distributions from CRRF. Future years reflect annualization, current revenue forecasts, and existing revenue distribution provisions.

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**Exhibit 4**  
**Local Revenue Effects**  
**Fiscal 2027-2031**  
**(\$ in Millions)**

	<u><b>FY 2027</b></u>	<u><b>FY 2028</b></u>	<u><b>FY 2029</b></u>	<u><b>FY 2030</b></u>	<u><b>FY 2031</b></u>
LHUR	(\$72.5)	(\$43.4)	(\$45.8)	(\$46.9)	(\$50.5)
Cannabis Tax –					
Direct Allocation	(\$3.0)	(\$3.7)	(\$4.8)	(\$5.6)	(\$5.7)
CRRF Distributions	(\$21.3)	(\$26.1)	(\$33.3)	(\$39.2)	(\$40.0)
<b>Net Local Revenue Effect</b>	<b>(\$96.9)</b>	<b>(\$73.2)</b>	<b>(\$83.9)</b>	<b>(\$91.8)</b>	<b>(\$96.2)</b>

LHUR: local highway user revenue  
CRRF: Community Reinvestment and Repair Fund

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

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**Small Business Effect:** The bill generally reduces personal income tax rates and broadly reduces sales and use tax rates, which benefit Maryland small businesses through reduced income tax liabilities and increases in taxable retail sales.

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## **Additional Information**

**Recent Prior Introductions:** Similar legislation has not been introduced within the last three years.

**Designated Cross File:** None.

**Information Source(s):** Comptroller's Office; Department of Legislative Services

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sj/jrb

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Analysis by: Elizabeth J. Allison and  
Michael Sanelli

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510