



Changes to Standard and Itemized Deductions and to State and Local Income Tax Rates from the 2025 Legislative Session

This Tax Alert replaces the previous version issued on December 19, 2025 to correct the effective date of the pass-through entity tax in Section III.C. The PTE rate change applies to tax years beginning after December 31, 2024.

I. General

In the 2025 Session, the Maryland General Assembly enacted several changes affecting income tax rates in the Budget Reconciliation and Financing Act of 2025, Chapter 604 of the Acts of 2025 (“the Act”).

For more details about tax law changes from the 2025 Session of the General Assembly, please visit <https://www.marylandcomptroller.gov>.

II. Local Income Tax Rate Changes

At the local level, counties and Baltimore City may now impose a maximum local income tax rate of 3.30 percent in a tax year beginning after December 31, 2025.

A. Local Rate Changes – Tax Year 2025

The Act permitted a county to retroactively increase the local income tax to rate 3.30 percent for the tax year beginning after December 31, 2024, if the county notified the Comptroller of the rate change by May 15, 2025. Dorchester County was the only county to do so, retroactively increasing its rate from 3.20 percent to 3.30 percent for tax year 2025.

The chart below reflects the counties with changed local income tax rates for tax years beginning after December 31, 2024.

County	TY 2025
Anne Arundel	2.94%*
Calvert	3.20%
Cecil	2.74%
Dorchester	3.30%
St. Mary's	3.20%

Anne Arundel County has a progressive local income tax with three brackets. For tax years beginning after December 31, 2024, Anne Arundel County’s middle tax bracket increased to

2.94 percent for Maryland taxable net income of \$50,001 through \$400,000 for taxpayers with a filing status of Single, Married Filing Separately, or Dependent, and for Maryland taxable net income of \$75,001 through \$480,000 for taxpayers with a filing status of Married Filing Jointly, Head of Household, or Qualified Surviving Spouse.

B. Local Rate Changes – Tax Year 2026

The chart below reflects the counties with changed local income tax rates for tax years beginning after December 31, 2025.

County	TY 2025	TY 2026
Allegany	3.03%	3.20%
Kent	3.20%	3.30%

III. State Income Tax Rate Changes

The Act retains Maryland’s progressive personal income tax rate schedule up to the 5.75 percent bracket, caps that bracket, and adds two new income tax brackets for high-income earners on Maryland Taxable Income for tax years beginning after December 31, 2024, as shown in the chart below:

Rate	Single, Married Filing Separately, Dependent	Married Filing Jointly, Head of Household, Qualified Surviving Spouse
5.75%	\$250,001 - \$500,000	\$300,001 - \$600,000
6.25%	\$500,001 - \$1,000,000	\$600,001 - \$1,200,000
6.50%	>\$1,000,000	>\$1,200,000

Interest for underpayment of estimated tax is waived for tax year 2025 if the interest would not have been incurred but for the 2025 rate increases noted above.

The Act also imposes an additional 2 percent tax on net capital gains for individuals with a federal adjusted gross income (“FAGI”) over \$350,000, subject to certain exceptions, for tax years beginning after December 31, 2024.

As a result of the change to the highest marginal State tax rate, the following additional impacts apply to tax years beginning after December 31, 2024:

C. Impact on pass-through entities (PTE)

The rate of PTE tax for individual and fiduciary members is the sum of the highest marginal State income tax rate and the lowest county income tax rate. For periods beginning after December 31, 2024, PTE tax rates are as follows:

- 8.75 percent on individual and fiduciary members’ shares, and
- 8.25 percent on entity members’ shares.

See Tax-General Article, § 10-102.

D. Impact on withholding on sale of real property by nonresidents

When a nonresident individual or entity transfers Maryland real property, unless exempt, the person responsible for closing must withhold tax at a rate of:

- 8.75 percent for nonresident individuals or fiduciaries, and
- 8.25 percent for nonresident entities.

See Tax-General Article, § 10-912.

E. Impact on gambling withholding

Maryland withholding rate on gambling winnings is:

- 9.5 percent for residents, and
- 8.75 percent for nonresidents.

See Tax-General Article, § 10-908.

IV. Changes to standard and itemized deductions

A. Standard deduction

At the State level, the Act increases the standard deduction, eliminates the income-based phase-in, and indexes future increases to cost-of-living adjustments. For the tax year beginning after December 31, 2024, the standard deduction amounts are:

- \$3,350 for Single, Married Filing Separately, or Dependent filers, and
- \$6,700 for Married Filing Jointly, Head of Household or Qualifying Surviving Spouse filers.

B. Itemized deduction phase-out

Beginning in tax year 2025, taxpayers with FAGI in excess of \$200,000 (or \$100,000 if married filing separately) must reduce the amount of their otherwise allowable itemized deductions by an amount equal to 7.5 percent of FAGI in excess of \$200,000 (\$100,000 if married filing separately).

In practical terms, when a taxpayer's FAGI is above the threshold for triggering the itemized deduction phase out, the "breakeven" point is the amount of itemized deductions at which the phase-out reduction pushes the net itemized amount to or below the standard deduction.

The following charts show how Maryland itemized deductions would be reduced for taxpayers at various FAGI thresholds along with the corresponding breakeven point for each filing status.

FAGI	Reduction Married Filing Separately	"Breakeven" Amount Married Filing Separately
\$100,000	\$0	N/A
\$200,000	\$7,500	\$10,850
\$250,000	\$11,250	\$14,600
\$275,000	\$13,125	\$16,475

\$400,000	\$22,500	\$25,850
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FAGI	Reduction All Other Filing Statuses	“Breakeven” Single Or Dependent	“Breakeven” Married Filing Jointly, HOH
\$100,000	\$0	N/A	N/A
\$200,000	\$0	N/A	N/A
\$250,000	\$3,750	\$7,100	\$10,450
\$275,000	\$5,625	\$8,975	\$12,325
\$400,000	\$15,000	\$18,350	\$21,700

1. Example 1

Take the example of a single taxpayer with FAGI of \$250,000:

- The phase-out FAGI threshold is \$200,000.
- Excess FAGI is \$250,000 - \$200,000 = \$50,000.
- The phase-out reduction amount is 7.5% × \$50,000 = \$3,750.
- The standard deduction is \$3,350.

This taxpayer’s allowable Maryland itemized deductions, pre-limitation, would need to exceed \$7,100 for their Maryland itemized deduction amount, after the phase-out limitation, to be greater than the standard deduction amount.

If this taxpayer had allowable Maryland itemized deductions totaling \$10,000 before the phase-out reduction, then the taxpayer’s itemized reduction would be reduced to \$6,250 by the phase out (\$10,000 minus \$3,750).

If this same taxpayer had allowable Maryland itemized deductions totaling only \$6,000 before the phase-out reduction, then the taxpayer’s itemized deductions would be reduced to \$2,250 by the phase out (\$6,000 minus \$3,750). In this instance, the taxpayer’s Maryland standard deduction of \$3,350 would be greater than the reduced itemized deduction.

2. Example 2

Take the example of a married filing jointly taxpayer with FAGI of \$400,000:

- The phase-out FAGI threshold is \$200,000.
- Excess FAGI is \$400,000 - \$200,000 = \$200,000.
- The phase-out reduction amount is 7.5% × \$200,000 = \$15,000.
- The standard deduction is \$6,700.

This taxpayer’s allowable Maryland itemized deductions, pre-limitation, would need to exceed \$21,700 for their Maryland itemized deduction amount, after the phase-out limitation, to be greater than the standard deduction amount.

If this taxpayer had allowable Maryland itemized deductions totaling \$50,000 before the phase-out reduction, then the taxpayer’s itemized deduction would be reduced to \$35,000 by the phase out (\$50,000 minus \$15,000).

If this same taxpayer had allowable Maryland itemized deductions totaling only \$20,000 before the phase-out reduction, then the taxpayer's itemized deduction would be reduced to \$5,000 by the phase out (\$20,000 minus \$15,000). In this instance, the taxpayer's Maryland standard deduction of \$6,700 would be greater than the reduced itemized deduction.

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