



# Changes to Tax Year 2026 Pass-Through Entity Estimated Payments

## I. General Information

Legislation passed during the 2026 session of the Maryland General Assembly alters the tax calculation for certain pass-through entities (“PTEs”), which, in turn, affects 2026 PTE quarterly estimated payments.

The Budget Reconciliation and Financing Act of 2025<sup>1</sup> (“2025 BRFA”) altered the calculation of pass-through entity taxable income for pass-through entities electing to be taxed at the entity level (“electing PTE”). Under the 2025 BRFA, for an electing PTE, the PTE’s taxable income is the portion of the PTE’s income that, in the case of a nonresident member, is derived from or reasonably attributable to the PTE’s trade or business in Maryland, or, in the case of a resident, equal to the member’s distributive or pro rata share of the PTE’s income derived from or attributable to the trade or business both in and outside of Maryland. In other words, a PTE’s taxable income equals resident members’ income from everywhere, and nonresident members’ Maryland income. This provision increases a PTE’s taxable income, thereby increasing the state and local tax deduction available to the PTE at the federal level.

Tax year 2026 Maryland Form 510 /511D Pass-Through Entity Declaration of Estimated Income Tax was designed to conform to the 2025 legislation.

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<sup>1</sup> 2025 Md. Laws, Chap. 604.

The Budget Reconciliation and Financing Act of 2026<sup>2</sup> (“2026 BRFA”) postponed any alterations of the calculation of a PTE’s taxable income to tax year 2027. It further altered the calculation of a PTE’s taxable income by providing electing PTEs options for calculating the tax.<sup>3</sup> For tax year 2026, the tax on electing PTEs will be imposed on resident and nonresident shares attributable to Maryland only, as it was in tax year 2025.

Some PTEs may have already made their 2026 first quarter estimated tax payment and election to be taxed at the entity level based on the PTE tax calculation as passed in the 2025 BRFA. This Tax Alert provides guidance on how to submit estimated tax payments for the remaining periods of 2026 and how a PTE can make an election to be taxed at the entity level for tax year 2026.

## **II. Impact of 2026 BRFA on Estimated Pass-Through Entity Tax for Electing PTEs**

PTEs use Maryland Form 510/511D Pass-Through Entity Declaration of Estimated Income Tax to make estimated tax payments. Nonelecting PTEs are required to pay tax on behalf of nonresident members. An electing PTE is required to pay tax on all members’ shares.

For the purpose of making quarterly estimated payments, electing PTEs will continue to calculate the PTE’s taxable income for both resident and nonresident members on the portion of the PTE’s income that is derived from or reasonably attributable to the PTE’s

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<sup>2</sup> 2026 Md. Laws, Chap. 6, Section 4, amending Chapter 604 of the Acts of 2025.

<sup>3</sup> 2026 Md. Laws, Chap. 6, Section 4. Additional guidance on calculating pass-through entity taxable income for tax year 2027 in accordance with the 2026 BRFA will be issued separately.

trade or business in Maryland.

To the extent that an electing PTE has already made a 2026 first quarter estimated payment based on resident members' distributive or pro rata shares derived from activity both inside and outside of Maryland in accordance with the 2025 BRFA, the PTE may adjust its payments for the remaining quarters to account for the first quarter's overpayment.

### **III. Impact of 2026 Legislation on a PTE's Election to be Taxed at the Entity Level for Tax Year 2026**

The Comptroller's Office requires a PTE to make an election to pay tax at the entity level with the first filing of the tax year, which is often on Form 510/511D with the first quarter estimated payment. Due to the timing of this legislative change and to give PTEs a reasonable amount of time to assess the impacts of the law change, for tax year 2026, the Comptroller will ignore any election or nonelection made with the first quarter estimated payment, and will, instead, honor the election or nonelection made with the next filing or payment for tax year 2026 made **after April 15, 2026**. For most PTEs, the next filing or payment for tax year 2026 will be the second quarter estimated payment.

### **IV. Additional Considerations When Making Estimated Tax Payments – Additional Tax on Net Capital Gain Income**

#### **A. Pass-Through Entities**

The 2025 BRFA also included an additional tax of 2% on net capital gain included in Maryland adjusted gross income of an individual with federal adjusted gross income in excess of \$350,000.<sup>4</sup> The surtax on net capital gain applies at the individual level,

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<sup>4</sup> For information about Maryland taxation of individual net capital gain income, see [Technical Bulletin No. 58](#).

and includes net capital gain the individual receives from a pass-through entity.

For tax year 2026, the PTE tax is composed of the following:

1. For nonelecting PTEs:

- a. A rate equal to the sum of the lowest county income tax rate and the highest marginal individual tax rate applied to the sum of each nonresident individual member's distributive or pro rata share of the PTE's nonresident taxable income, plus
- b. The corporate tax rate applied to the sum of each nonresident entity member's distributive or pro rata share of the PTE's nonresident taxable income.<sup>5</sup>

2. For electing PTEs:

- a. A rate equal to the sum of the lowest county income tax rate and the highest marginal individual tax rate applied to the sum of each individual member's distributive or pro rata share of the PTE's taxable income, plus
- b. The corporate tax rate applied to the sum of each entity member's distributive or pro rata share of the PTE's taxable income.<sup>6</sup>

The net capital gain surtax is not a component of the PTE tax calculation. Although a PTE with net capital gain income is required to report that income separately to each member on 510/511 Schedule K-1, the PTE does not pay additional tax on net capital gain for its individual members. Note, any overpayment made by the PTE is

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<sup>5</sup> Tax-General Article ("TG"), § 10-102.1(d)(1), Annotated Code of Maryland.

<sup>6</sup> TG § 10-102.1(d)(2).

refunded to the PTE, and is not distributable to the members.

## **B. Individuals**

Individuals must account for any net capital gain income they expect to earn during the tax year, including net capital gain income distributed by a PTE, to avoid being underpaid. Account for the surtax on net capital gain income by increasing the amount of estimated tax payment on the Payment Voucher Worksheet for Estimated Tax and Extension Payments. If an individual receives net capital gain income from a PTE, the PTE credit will not be sufficient to cover the additional 2% tax on net capital gain income.

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