Maryland Impacts of the One Big Beautiful Bill Act (PL 119-21)

I. General Information.

On July 4, 2025, President Donald J. Trump signed into law H.R. 1- the One Big Beautiful Bill Act (PL 119-21) - making permanent many provisions of the 2017 Tax Cuts and Jobs Act (TCJA) (PL 115-97) and introducing new tax benefits for individuals and businesses, as well as modifying many other provisions.

As a conformity state, administration of Maryland income tax generally conforms to federal income tax laws except when the Maryland General Assembly has enacted decoupling legislation, or when automatically decoupled. Maryland law provides for automatic decoupling when: (1) an amendment to the Internal Revenue Code (IRC) affects the determination of federal adjusted gross income (FAGI) or federal taxable income for the taxable year the amendment is enacted or any preceding taxable year; and (2) that amendment has a revenue impact of $5 million or more for the fiscal year that begins during the calendar year in which the amendment is enacted or any preceding fiscal year.[1] The revenue impact is determined by the Maryland Bureau of Revenue Estimates (BRE) in a report issued 60 days after an amendment to the IRC.

In its report[2], the BRE concluded that each of the following sections of PL 119-21 would have an impact of greater than $5 million in each affected year:

1. Sec. 70302. Full expensing of domestic research and experimental expenditures,
2. Sec. 70303. Modification of limitation on business interest, and
3. Sec. 70307. Special depreciation allowance for qualified production property.

The BRE also concluded that certain provisions of PL 119-21 relating to tips, interest on vehicle loans, overtime pay, and an additional deduction for individuals aged 65 years or older, do not impact FAGI, and therefore do not impact Maryland revenues. While these provisions of PL 119-21 may impact an individual's federal tax liability, these provisions do not flow to the Maryland return, and, therefore, do not impact the individual's Maryland tax liability.

II. Full Expensing of Domestic Research or Experimental Expenditures.

Prior to the enactment of the TCJA, businesses could generally deduct qualified research and experimental ("R&E") expenses in the year in which they were incurred. Since tax year 2022, IRC § 174 has generally required businesses to capitalize and amortize research or experimental expenditures. Domestic research or experimental expenditures were amortized over five years (60 months) and foreign research or experimental expenditures over fifteen years (180 months).

PL 119-21 § 70302 added IRC § 174A, which allows the taxpayer to elect to deduct the full amount of domestic research or experimental expenditures in the year they are incurred. This change is retroactive to tax year 2022 for certain eligible small businesses. Special rules also apply for domestic research or experimental expenditures incurred in tax years 2022 through 2024.

Maryland is decoupled from IRC § 174A(a), as it applies to a taxable year beginning in calendar year 2025 as well as from IRC § 174A, Note (f), for any taxable year preceding 2025. A decoupling

[1] Tax-General Article § 10-108, Annotated Code of Maryland.
[2] Maryland Bureau of Revenue Estimates, 60-day Report, September 5, 2025. (https://mdbre.gov/BRE_reports/federalimpact/60-day-report-obbb.pdf)

addition modification is required for the amount of the federal deduction claimed under IRC § 174A(a) as a domestic research or experimental expenditure paid or incurred by the taxpayer during the taxable year beginning in, or preceding, taxable year 2025 that exceeds the amount allowable under the IRC prior to the enactment of IRC § 174A.

For Maryland income tax purposes, domestic research or experimental expenditures paid or incurred in 2025 or in prior years must be capitalized and claimed as a deduction over the five-year (60 month) amortization period. Similarly, an eligible taxpayer under IRC § 174A, Note (f)(1)(B) (Small Business)[3] and every other taxpayer that paid or incurred a domestic research or experimental expenditure in a taxable year preceding 2025 must continue, on their Maryland returns, to claim deductions over the remaining portion of the five-year (60 month) amortization period, as they would have but for the enactment of IRC § 174A. Maryland will not accept amended returns for prior years to claim the domestic research or experimental expenditure deduction in full in the year it was incurred. Taxpayers who paid or incurred domestic research or experimental expenditures in taxable years beginning after December 31, 2021, but before January 1, 2026, must claim any deduction remaining for domestic research or experimental expenditures ratably over the existing five-year (60 month) amortization period on their Maryland income tax returns.

The deduction for domestic research or experimental expenditures must be reported on a 2025 Maryland income tax return in one of two ways, depending on federal reporting:

1. If the taxpayer claims on their federal income tax return a deduction under IRC § 174A(a) (including IRC § 174A, Note (f)(2)(A)(i) and (ii)) for domestic research or experimental expenditures paid or incurred, they must complete a pro forma federal return which shows the allowed domestic research or experimental expenditures according to the 5-year (60 month) amortization schedule and report a decoupling modification on MD Form 500DM for the years remaining on the amortization schedule; or

2. If the taxpayer elects to ratably claim on their federal income tax return a deduction over not less than 60 months for domestic research or experimental expenditures paid or incurred, they do not need to complete a pro forma federal income tax return nor do they need to claim a decoupling modification on MD Form 500DM.

Example 1.

Company made domestic research expenditures of $100,000 in taxable year 2025. On its 2025 federal income tax return, Company claims a $100,000 deduction under IRC § 174A(a). Because Maryland is automatically decoupled from this provision of PL 119-21, Company must include an addition modification to income on its 2025 Maryland income tax return. The addition modification amount is $80,000.

	$100,000	Amortized domestic research expense remaining
-	$ 20,000	Amortization amount allowed under the IRC prior to enactment of § 174A
	$ 80,000	Decoupling addition modification

Company must complete a pro forma federal return that reflects the domestic research expense allowed for the taxable year—$20,000—and report the decoupling addition modification—$80,000—on MD Form 500DM.

Example 2.

Company incurred domestic experimental expenditures of $100,000 in taxable year 2023.

[3] A taxpayer is eligible if it meets the gross receipts test of IRC 448(c) for the first taxable year beginning after December 31, 2024.

Company capitalized $100,000, amortized deductions over a five-year (60 month) period, and claimed a $20,000 domestic research or experimental expenditure deduction for each of taxable years 2023 and 2024. For taxable year 2025, Company claims the amount remaining in its amortization schedule, $60,000, on its federal income tax return as a domestic research or experimental expenditure deduction under IRC § 174A, Note (f)(2)(A)(i). On its 2025 Maryland income tax return, Company must include a $40,000 addition modification to income.

	$ 60,000	Amortized domestic experimental expense remaining
-	$ 20,000	Amortization amount allowed under the IRC prior enactment of § 174A
	$ 40,000	Decoupling addition modification

Company must complete a pro forma federal return that reflects the domestic experimental expense allowed for the taxable year—$20,000—and report the decoupling addition modification—$40,000—on MD Form 500DM.

For the remaining taxable years in the original amortization period, Company must complete a pro forma federal return that reflects the domestic experimental expenditure deduction allowed for the taxable year—$20,000—and report the decoupling subtraction modification on MD Form 500DM.

Example 3.

Assume the same facts as Example 2, but Company is a Small Business and elects to file amended federal income tax returns for taxable year 2023 so it can also deduct its remaining domestic experimental expenditures it incurred in 2023—$60,000—on its amended 2023 federal income tax return. Maryland is automatically decoupled from IRC § 174A, Note (f). This means Company may not file an amended 2023 Maryland income tax return that reflects its amended federal return to the extent that amended federal income tax return claims a deduction for domestic research or experimental expenditures as allowed by IRC § 174A, Note (f).

For taxable year 2025, Company will not deduct any amortized portion of domestic experimental expenditures incurred in 2023 on its federal return, because Company amended its 2023 federal income tax return to deduct its remaining domestic experimental expenditures in 2023. To complete the 2025 Maryland return, Company must complete a pro forma federal return that reflects the domestic experimental expenditures that would have been deducted in the 2025 taxable year but for the enactment of IRC § 174A—$20,000. Company must also report a decoupling subtraction modification on MD Form 500DM of $20,000.

For taxable years 2026 and 2027, Company must complete pro forma federal returns that reflect the allowed deduction of domestic experimental expenditures for the taxable year—$20,000—and report the decoupling subtraction modification on MD Form 500DM.

Example 4.

In 2022, Company, a Small Business, incurred $100,000 in domestic research expenditures. As required at the time, it amortized the expense over five years deducting $20,000 in 2022, 2023, and 2024, with the remaining $40,000 deductible as $20,000 in 2025 and $20,000 in 2026. In 2025, Company amends its 2022, 2023, and 2024 federal returns to deduct the full amount of domestic research expenses incurred in 2022, as permitted by IRC §174A. Since Maryland is automatically decoupled from IRC § 174A, Note (f), Company cannot amend its Maryland returns to expense the full amount of domestic research expenditures in the year they are incurred. Company must follow the five-year depreciation schedule on the Maryland return.

Because Company will have exhausted the domestic research or experimental expenditure deduction at the federal level, but not at the Maryland level, Company must complete a pro forma federal return that reflects the domestic research or experimental expenditure deductions allowed for each taxable year—$20,000—and report a decoupling subtraction modification on MD Form

500DM for taxable years 2025 and 2026.

III. Modification of Limitation on Business Interest Deduction.

Beginning in tax year 2022, to calculate adjusted taxable income ("ATI") for the purpose of determining the limit on deductible business interest, a business was required to deduct expenses for depreciation, amortization, and depletion. These non-cash deductions lowered ATI, and thereby lowered the allowable business interest deduction, which is capped at 30 percent of ATI.

PL 119-21 allows ATI to be calculated without regard to deductions for depreciation, amortization, and depletion expenses. In other words, these deductions are included with taxable income when computing ATI, which increases ATI, and thereby increases the allowable business interest deduction.

Maryland is decoupled from the amendment to IRC §163(j)(8)(A)(v) in PL 119-21 § 70303, as it applies to a taxable year beginning in calendar year 2025. A decoupling modification is required to add back to federal adjusted gross income or federal taxable income any amount of depreciation, amortization, or depletion used to calculate a business's ATI in determining the limit on deductible business interest for any tax year beginning in calendar year 2025.

Example 5.

In taxable year 2025, Company reports the following:

Earnings before interest, taxes, depreciation, and amortization expenses:	$2,300,000
Depreciation expense:	$ 300,000
Total business interest expense:	$ 800,000

Company has no business interest income or floor plan financing interest.

Under PL 119-21, businesses are not required to deduct depreciation when calculating federal ATI, so Company's ATI for the purpose of calculating the business interest deduction limitation is $2,300,000. After applying the 30 percent limitation in IRC §163(j)(1), Company deducts $690,000 of business interest on its federal return and carries forward $110,000 of disallowed interest.

On its Maryland return, Company must recalculate ATI, this time deducting the depreciation expense. On a federal pro forma return, Company's adjusted taxable income is $2,000,000, and after applying the 30 percent limitation in IRC §163(j)(1), Company's deductible business interest in Maryland is $600,000 with $200,000 available for carry forward.

On Line 6 of Form 500DM, in Column 1, Company reports $690,000 from its federal return. In Column 2, Company reports $600,000 as the recalculated Maryland amount. Column 3 reflects a difference of $90,000 that must be entered on Company's Maryland return as an addition modification.

IV. Special Depreciation Allowance for Qualified Production Property.

Section 70307 of PL 119-21 created IRC §168(n), which provides a new special depreciation allowance for "qualified production property," and permits the immediate full expensing of certain manufacturing, production, or refining facilities. These properties would otherwise have been depreciated as provided in IRS Publication 946.

Maryland is decoupled from IRC §168(n), as it applies to a taxable year beginning in calendar year 2025. A decoupling modification is required to add back to federal adjusted gross income or federal taxable income any amount deducted on the federal return as special depreciation for qualified production property under IRC §168(n) for any taxable year beginning in calendar year 2025.

Example 6.

In taxable year 2025, Company places into service a new piece of qualified production property with a depreciable basis of $1,000,000. Under PL 119-21 and IRC §168(n), Company can immediately expense the entire $1,000,000. Company deducts $1,000,000 in IRC §168(n) depreciation on its federal return.

For its Maryland return, Company must first depreciate the asset according to the rules outlined in IRS Publication 946 excluding IRC §168(n). In this example, Company's new piece of qualified production property is depreciated on 39-year straight-line depreciation for nonresidential real property. Therefore, Company may only take $25,641 in depreciation for taxable year 2025 in Maryland.

On Line 7 of Form 500DM in Column 1, Company reports a $1,000,000 depreciation deduction from its federal return. In Column 2, Company reports $25,641 as the recomputed depreciation based on the applicable rate from IRS Publication 946 excluding IRC Section 168(n). Column 3 reflects a difference of $974,359 that must be entered on Company's Maryland return as an addition modification.

In subsequent years as Company continues to depreciate the asset under Maryland's calculation, while there is no further federal deduction, Company will generate a subtraction modification until the basis difference is fully recovered.

V. Provisions of PL 119-21 That Are Not Subject to Automatic Decoupling Because They Do Not Affect FAGI but Cannot Be Taken as Deductions on Maryland Returns.

In tax years 2025 through 2028, PL 119-21 allows some special deductions from an individual's FAGI when calculating federal taxable income. They include:

1. income from tips (IRC § 224; PL 119-21 § 70201);
2. income from overtime pay (IRC § 225; PL 119-21 § 70202);
3. interest paid on an automobile loan (IRC § 163(h)(4); PL 119-21 § 70203); and
4. an additional deduction for individuals aged 65 years or older (IRC § 151(d)(5)(C); PL 119-21 § 70103).

These are federal deductions. They do not impact the calculation of an individual's Maryland tax liability and are not reported on the Maryland return because they do not affect the calculation of an individual taxpayer's FAGI. They also cannot be claimed as an itemized deduction on the Maryland return because they cannot be claimed as itemized deductions on an individual's federal return.

Legal Division
P. O. Box 1829, Annapolis, Maryland 21404-1829
Email: compmdlegal@marylandtaxes.gov
www.marylandcomptroller.gov
For the deaf or hard of hearing: call via Maryland Relay at 711 in Maryland
or 1-800-735-2258
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