Morgan Stanley

PRIVATE WEALTH MANAGEMENT

CLIENT ALERT

Maryland Taxes

Wealth and Estate Planning Strategists
Family Office Resources

Maryland faced a $3.3 billion budget deficit for fiscal year 2026. To generate revenue and address shortfalls, Maryland Governor Wes Moore signed H.B. 350 (the Budget Bill) and H.B. 352 (the Budget Reconciliation and Financing Act of 2025) which implement increased and new taxes as of July 1, 2025.

How Did We Get Here?

According to the Maryland Board of Revenue's March 2025 report, Maryland's budget deficit stems from lower-than-expected income and sales tax revenues, the Blueprint for Maryland's Future (which is Maryland's 10-year education funding plan) as well as persistent economic effects from the COVID-19 pandemic. In addition, the government maintained and expanded many public services. Further, many high-income tax residents have moved to low- or no-income tax states.

Where Are We Now?

To accommodate budgetary shortfalls, various taxes have now increased. Governor Wes Moore and the General Assembly agreed on tax changes that primarily focus on high-income earners. They also expanded taxation of digital services.

Maryland's tax system previously had 8 brackets. The top income tax rate was 5.75% for individuals with over $250,000 of taxable income (and for joint filers with over $300,000 of taxable income). Maryland is implementing new top tier individual income tax rates as well as additional capital gains taxes, expanding the taxation of Information Technology ("IT") and data services, and other tax increases.

How Will the New Taxes be Applied?

Top Tier State Income Tax Rates

For individuals with between $500,001-$1 million of taxable income (and for joint filers with between $600,001-$1.2 million of taxable income), there is a new 6.25% top income tax bracket. For individuals with over $1 million of taxable income (and for joint filers with over $1.2 million of taxable income), there is a new 6.5% top income tax bracket.

Capital Gains Surtax

For individuals with federal adjusted gross income ("AGI") over $350,000, an additional 2% capital gains tax applies to net capital gains. Certain exceptions to this AGI will apply, such as for retirement accounts and specific real property sales.

Sales Tax on IT and Data Services

While Maryland's general sales tax rate remains 6% for most items, a new sales tax of 3% applies to specific IT and data services, such as data processing, web hosting, computer systems design and software publishing services.

Additional Varied Tax Increases

A vehicle excise tax increases from 6% to 6.5%. There is a rental vehicle tax of 3.5%. The tax rate for sports betting increases from 15% to 20%. There is a sales tax of 6% on certain vending machine products. The sales tax for sales of cannabis increases from 9% to 12%. There is a $5 per tire fee. A vehicle emissions inspection fee increases from $14 to $30.

Further, a maximum county income tax rate rises from 3.2% to 3.3%. There is also a phase-out of itemized deductions for federal AGI over $200,000.

What are Some Potential Considerations to Mitigate the Taxes?

As usual, the appropriate strategies will depend on an individual's unique circumstances. Individuals and businesses should consult tax professionals for personalized planning to investigate the new phase-outs and as well as the IT and data services taxes and other complexities. A few planning considerations to mitigate the taxes might include:

- Consider financial planning strategies with your Morgan Stanley Financial Advisor such as offsetting capital gains with capital losses.
- Contribute to retirement accounts (such as IRAs or 401(k)s) and Health Savings Accounts ("HSAs") to lower taxable income.
- Evaluate a potential move – either to a lower-tax jurisdiction within the state or out of the state – if it makes sense for your personal and professional situation.
- Review increased standard deductions (which are $3,350 for individuals and $6,700 for joint filers).
- Use a charitable remainder trust ("CRT") to potentially defer both state and federal capital gains taxes when the asset is sold. Consider other charitable planning techniques such as contributing to a Donor Advised Fund ("DAF") account under a platform such as MS GIFT in high income tax years. However, note that the phase-out of itemized deductions reduces the state income tax benefit of large charitable contributions for high earners.

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