

Navigating Maryland's New Tax Law Changes — What You Need to Know

Presented by —

Tyler von Lange, CPA, MBA & David Leipnik, CPA, CVA

Tyler von Lange, CPA, MBA

- Manager in Gross Mendelsohn's tax department
- 8+ years of experience
- Specializes in working with high net worth individuals, manufacturers and real estate companies, but also has a passion for helping small businesses of all sizes



David Leipnik, CPA, CVA

- Partner in Gross Mendelsohn's tax department
- 18+ years of experience
- Provides accounting and tax services to a variety of clients, including nonprofit organizations, construction and real estate companies, and professional service firms, manufacturers and distributors



The Budget Reconciliation and Financing Act of 2025 (BRFA)

- On May 27, 2025, Governor Wes Moore signed the Budget Reconciliation and Financing Act of 2025 (BRFA) into law
- The bill is effective July 1, 2025
 - Some of the provisions begin July 1, 2025, but the income tax provisions are effective for tax years beginning after December 31, 2024 (i.e., individual taxpayers for the 2025 tax year)



Standard Deduction Increase

- The Maryland standard deduction has been increased to \$3,350 for single filers and \$6,700 for married filing jointly filers
 - Up from \$2,700 and \$5,450 in 2024, respectively



Income Tax Changes – State Income Tax Rates

- The state has added two new income tax brackets to the current bracket structure
 - Previously all taxpayers who earned over \$250,000 (single) or \$300,000 (married filing jointly) would pay 5.75% on any income that exceeded the respective thresholds
- The new brackets are:
 - The brackets for the 5.75% rate are capped at \$500,000 for single filers and \$600,000 for married filing jointly filers
 - 6.25% for income between \$500,000.01 - \$1,000,000 for single filers or \$600,000.01 - \$1,200,000 for married filing jointly filers
 - 6.50% for income that exceeds \$1,000,000 for single filers or \$1,200,000 for married filing jointly filers



Single Filer Brackets – Visualized

SINGLE FILERS

Before BRFA Changes

Tax Rate	Taxable Income Threshold		
2%	\$ -	to \$	1,000.00
3%	\$ 1,000.01	to \$	2,000.00
4%	\$ 2,000.01	to \$	3,000.00
4.75%	\$ 3,000.01	to \$	100,000.00
5%	\$ 100,000.01	to \$	125,000.00
5.25%	\$ 125,000.01	to \$	150,000.00
5.50%	\$ 150,000.01	to \$	250,000.00
5.75%	\$ 250,000.01	and above	
6.25%			
6.50%			

After BRFA Changes

Taxable Income Threshold		
\$ -	to \$	1,000.00
\$ 1,000.01	to \$	2,000.00
\$ 2,000.01	to \$	3,000.00
\$ 3,000.01	to \$	100,000.00
\$ 100,000.01	to \$	125,000.00
\$ 125,000.01	to \$	150,000.00
\$ 150,000.01	to \$	250,000.00
\$ 250,000.01	to \$	500,000.00
\$ 500,000.01	to \$	1,000,000.00
\$ 1,000,000.01	and above	



Married Filing Jointly Brackets – Visualized

MARRIED FILING JOINTLY FILERS

Before BRFA Changes			After BRFA Changes		
Tax Rate	Taxable Income Threshold		Taxable Income Threshold		
2%	\$ -	to \$ 1,000.00	\$ -	to \$ 1,000.00	
3%	\$ 1,000.01	to \$ 2,000.00	\$ 1,000.01	to \$ 2,000.00	
4%	\$ 2,000.01	to \$ 3,000.00	\$ 2,000.01	to \$ 3,000.00	
4.75%	\$ 3,000.01	to \$ 150,000.00	\$ 3,000.01	to \$ 150,000.00	
5%	\$ 150,000.01	to \$ 175,000.00	\$ 150,000.01	to \$ 175,000.00	
5.25%	\$ 175,000.01	to \$ 225,000.00	\$ 175,000.01	to \$ 225,000.00	
5.50%	\$ 225,000.01	to \$ 300,000.00	\$ 225,000.01	to \$ 300,000.00	
5.75%	\$ 300,000.01	and above	\$ 300,000.01	to \$ 600,000.00	
6.25%			\$ 600,000.01	to \$ 1,200,000.00	
6.50%			\$ 1,200,000.01	and above	



Local Income Tax Rate – Maximum Allowed Rate Increased

- The bill allows localities and counties to increase their local rate up to 3.3%
 - Previously, the maximum local tax rate allowed by law was 3.2%
- No counties or localities have increased their taxes higher than 3.2% so far, so this does not change anything for the 2025 tax year



Capital Gains Surtax

- The bill introduces a 2% surtax on capital gains if the taxpayer's federal adjusted gross income exceeds \$350,000
- Exemptions:
 - Sale/exchange of primary residence for less than \$1.5 million
 - Assets held in specified retirement plans
 - Certain breeding livestock held for over 12 months
 - Certain land subject to conservation, agricultural or forest preservation easement
 - §179 eligible business property
 - Does not exclude commercial/residential real estate property



Itemized Deduction Phase-Out

- Filers who earn over \$200,000 and itemize their deductions, instead of the standard deduction, will be affected by a phase-out of their itemized deduction by 7.5% for every dollar over the \$200,000 federal adjusted gross income threshold
 - For example, a taxpayer has \$450,000 of federal adjusted gross income the phase-out will be calculated on the \$250,000 of income that exceeds the \$200,000 phase-out threshold
 - If this taxpayer had \$50,000 of itemized deductions, the phase-out would reduce their itemized deductions by \$18,750 ($\$250,000 \times 7.5\%$), so their adjusted itemized deductions would be \$31,250 with this adjustment



Scenarios

Five examples of how the BRFA tax provisions work

Scenario 1

- Two married taxpayers each earn \$100,000 and file married filing jointly. They use the standard deduction and do not itemize.



	Previous Law	Under BRFA 2025	Difference
Wages	\$ 200,000	\$ 200,000	\$ -
Dividends & Interest	-	-	-
Capital Gains	-	-	-
Business Income	-	-	-
Total Federal Adjusted Gross Income	200,000	200,000	-
Maryland Two Earner Deduction	(1,200)	(1,200)	-
Maryland Adjusted Gross Income	198,800	198,800	-
Maryland Itemized Deductions	-	-	-
Maryland Standard Deduction	(5,450)	(6,700)	(1,250)
Maryland Taxable Income	193,350	192,100	(1,250)
Maryland Tax	9,286	9,220	(66)
Capital Gains Surtax	-	-	-
County Tax (Baltimore City/County)	6,187	6,147	(40)
Total Tax	\$ 15,473	\$ 15,367	\$ (106)



Scenario 2

- Two married taxpayers each earn \$100,000 and file married filing jointly. They use the standard deduction and do not itemize.
- The taxpayers sold public-traded stock they purchased in 2009 for a \$250,000 long-term capital gain.



	Previous Law	Under 2025 BRFA	Difference
Wages	\$ 200,000	\$ 200,000	\$ -
Dividends & Interest	-	-	-
Capital Gains	250,000	250,000	-
Business Income	-	-	-
Total Federal Adjusted Gross Income	450,000	450,000	-
Maryland Two Earner Deduction	(1,200)	(1,200)	-
Maryland Adjusted Gross Income	448,800	448,800	-
Maryland Itemized Deductions	-	-	-
Maryland Standard Deduction	(5,450)	(6,700)	(1,250)
Maryland Taxable Income	443,350	442,100	(1,250)
Maryland Tax	23,315	23,243	(72)
Capital Gains Surtax	-	5,000	5,000
County Tax (Baltimore City/County)	14,187	14,147	(40)
Total Tax	\$ 37,502	\$ 42,390	\$ 4,888



Scenario 3

- One spouse earns \$300,000 and the other has \$100,000 in investment income. They file jointly and itemize their deductions. They have \$10,000 in real estate taxes, \$20,000 in mortgage interest and \$20,000 in charitable contributions for a total itemized deductions of \$50,000.



	Previous Law	Under BRFA 2025	Difference
Wages	\$ 300,000	\$ 300,000	\$ -
Dividends & Interest	100,000	100,000	-
Capital Gains	-	-	-
Business Income	-	-	-
Total Federal Adjusted Gross Income	400,000	400,000	-
Maryland Two Earner Deduction	(1,200)	(1,200)	-
Maryland Adjusted Gross Income	398,800	398,800	-
Maryland Itemized Deductions	(50,000)	(50,000)	-
Itemized Deduction Phase-Out	-	15,000	15,000
Maryland Standard Deduction	-	-	-
Maryland Taxable Income	348,800	363,800	15,000
Maryland Tax	17,879	18,741	863
Capital Gains Surtax	-	-	-
County Tax (Baltimore City/County)	11,162	11,642	480
Total Tax	\$ 29,040	\$ 30,383	\$ 1,343



Scenario 4

- One spouse earns \$100,000 and has \$100,000 in investment income and the other spouse has \$700,000 in income from their consulting business. They file jointly and do not itemize their deductions.



	Previous Law	Under BRFA 2025	Difference
Wages	\$ 100,000	\$ 100,000	\$ -
Dividends & Interest	100,000	100,000	-
Capital Gains	-	-	-
Business Income	700,000	700,000	-
Total Federal Adjusted Gross Income	900,000	900,000	-
Maryland Two Earner Deduction	(1,200)	(1,200)	-
Maryland Adjusted Gross Income	898,800	898,800	-
Maryland Itemized Deductions	-	-	-
Maryland Standard Deduction	(5,450)	(6,700)	(1,250)
Maryland Taxable Income	893,350	892,100	(1,250)
Maryland Tax	86,315	87,704	1,389
Capital Gains Surtax	-	-	-
County Tax (Baltimore City/County)	28,587	28,547	(40)
Total Tax	\$ 114,902	\$ 116,251	\$ 1,349



Scenario 5

- One spouse has \$250,000 in investment income and \$200,000 in capital gains. The other spouse has \$100,000 of wages and \$1,500,000 of income from their construction business. They file jointly and have \$200,000 in itemized deductions.



	Previous Law	Under BRFA 2025	Difference
Wages	\$ 100,000	\$ 100,000	\$ -
Dividends & Interest	250,000	250,000	-
Capital Gains	200,000	200,000	-
Business Income	<u>1,500,000</u>	<u>1,500,000</u>	<u>-</u>
Total Federal Adjusted Gross Income	<u>2,050,000</u>	<u>2,050,000</u>	<u>-</u>
Maryland Two Earner Deduction	<u>(1,200)</u>	<u>(1,200)</u>	<u>-</u>
Maryland Adjusted Gross Income	<u>2,048,800</u>	<u>2,048,800</u>	<u>-</u>
Maryland Itemized Deductions	(200,000)	(200,000)	-
Itemized Deduction Phase-Out	-	138,750	138,750
Maryland Standard Deduction	<u>-</u>	<u>-</u>	<u>-</u>
Maryland Taxable Income	<u>1,848,800</u>	<u>1,987,550</u>	<u>138,750</u>
Maryland Tax	141,254	158,138	16,885
Capital Gains Surtax	<u>-</u>	<u>4,000</u>	<u>4,000</u>
County Tax (Baltimore City/County)	<u>59,162</u>	<u>63,602</u>	<u>4,440</u>
Total Tax	<u>\$ 200,415</u>	<u>\$ 225,740</u>	<u>\$ 25,325</u>



3% Sales Tax On Data & Information Technology Services

- This is effective July 1, 2025
- This is NOT a sales tax on all services or business-to-business transactions; those items were nixed from the final bill that passed



3% Sales Tax On Data & Information Technology Services

- The 3% tax is applicable to services described under NAICS codes 5182, 5192, 5415, 5132
 - 5182 – Data Processing, Hosting and Related Services
 - 5192 – Web Search Portals, Libraries, Archives and Other Information Services
 - 5415 & Subsectors – Computer Systems Design and Related Services
 - 5312 & Subsectors – System Software or Application Software Publishing Services
- NAICS reported for the company itself is irrelevant. If the company provides services under these NAICS sectors and subsectors, they may be subject to the sales tax.



NAICS Sector 518 Services

Application hosting (excluding software publishing)

Automated data processing

Cloud computing (except software publishing and computer systems design)

Cloud storage

Co-location in data centers (i.e., rental of server and networking space in data centers)

Computer data storage

Computer input preparation

Computer time leasing

Computer time rental

Disk and diskette conversion

Disk and diskette recertification

Electronic data processing

Game server hosting

Infrastructure as a service (IaaS)

Media streaming data storage

Media streaming technical support

Microfiche recording and imaging

Microfilm recording and imaging

Computer time sharing

Computing infrastructure provision

Computing platform infrastructure provision

Data capture imaging

Data entry

Data processing computer services

Data processing (except payroll services, financial transaction processing services)

Optical scanning

Platform as a service (PaaS)

Video and audio technical streaming support

Video tape and film stock technical streaming support

Virtual currency (cryptocurrency) mining

Web hosting (excluding software publishing)



NAICS Sector 519 Services

Archives

Motion picture film libraries

Bookmobiles

Music archives

Centers for documentation (i.e., archives)

News clipping services

Circulating libraries

Press clipping services

Film archives

Provision of stock photos

Internet search portals

Reference libraries

Internet search websites

Telephone-based recorded information services

Lending libraries

Title search services (except real estate)

Libraries (except motion picture stock footage, motion picture commercial distribution)

Web search portals



NAICS Sector 5415 Services

Audio visual and IT (information technology) systems integration design

CAD (computer-aided design) systems integration design

CAE (computer-aided engineering) systems integration design

CAM (computer-aided manufacturing) systems integration design

Computer disaster recovery

Computer hardware consulting

Computer network systems integration design

Welding robot applications/software design and development

Computer software consulting

Computer systems integration analysis and design

Custom computer software analysis and design

Custom computer software support

Custom search engine optimization (SEO) (except hosting and infrastructure support services)

Custom software programming

Custom webpage design services

Data processing facilities (i.e., client's facilities) management and operation

Industrial robot automation applications/software

design and development

Industrial robot programming

Information management computer systems integration design

Computer systems integration design consulting

Computer systems integrator

Computer software installation

Computer systems facilities (i.e., client's facilities) management and operation

Custom computer application software programming

Custom computer program or software development

Custom computer programming services

Local area network (LAN) computer system integration design

Machine vision software design and development

Material handling robot applications/software design and development

Office automation computer systems integration design

Robotics applications/software design and development

Robotics process automation software design and development



NAICS Sector 5132 Services

Applications development and publishing (except on a custom basis)

Packaged computer software publishing

Computer software publishing and reproduction

Packaged computer utility software

Gaming site publishing

Packaged programming language and compiler software publishing

Mobile applications development and publishing (except on a custom basis)

Packaged software publishing

Packaged computer applications software

Publishing computer software for games

Packaged computer operating systems software

Software publishing



3% Sales Tax On Data & Information Technology Services

- If a product you sold may be described under this NAICS code but was also taxable under the 6% tax rate, the existing 6% rate takes precedent when determining the tax rate (such as “canned” software)
- The tax is ONLY subject to customers/licenses that are located or used in Maryland
 - If a Maryland business sells digital services to a company in Texas that only has Texas employees, those services will not be subject to the tax



Multiple Point Of Use (MPU) Certificate

- If the purchaser of the taxable services plans on using the service in Maryland and other states, the purchaser can provide a “Multiple Point of Use” certificate that has been approved by the Comptroller of Maryland. Presenting this certificate will remove the requirement for the seller to remit sales tax. Instead, the purchaser will carry the requirement to report the use tax on the portion of service they use in Maryland.
- The Multiple Point of Use certificate can also be used by buyer, who will resell the taxable service to a member of an affiliated group or related pass-through entity of which the buyer is a member. The end user will be required to remit the use tax on the taxable service.



Multiple Point Of Use (MPU) Certificate – Buyer

- A separate MPU certificate must be used for each sale reporting the proper allocation related to the sale.
- To issue an MPU certificate, a buyer must have a sales and use tax account with the Comptroller of Maryland. The buyer must apply to the Comptroller's office for authorization to issue an MPU certificate for each transaction which the buyer wishes to provide the seller with an MPU certificate.
- The MPU certificate is not currently available as of the time of this presentation. We are still awaiting information from the Comptroller's office. We expect the application for the MPU to be filed through the Maryland TaxConnect website.



Multiple Point Of Use (MPU) Certificate – Seller

- The MPU certificate shifts the reporting requirement to the buyer, so the seller does not have to remit the tax during the point of sale
- The seller must verify there is a valid MPU certificate for each sale
 - The seller can verify the MPU certificate by going to www.marylandtaxconnect.com and selecting “Verify Sales and Use Tax Registration or Exemption” in the “License/Permit Search” section
 - You will need to enter the buyer’s Central Registration Number (this is the number the buyer would use to report its sales tax)



Exemptions

- Sale of cloud computing services to a cybersecurity business
- Sales to or by certain qualified companies located in University of Maryland's Discovery District
- Sales for resale
- Sales to charitable, nonprofit or government tax-exempt entity



Existing Contracts – Exemption

- Contracts for sales of digital and IT services and software publishing services entered prior to July 1, 2025 are not subject to the sales and use tax. Proper records must be maintained regarding the date and terms of sale if no sales and use tax is collected, but delivery or payment is made after July 1, 2025.
- Tax is due on subscriptions based on the subscription period rather than when the original subscription was entered.
 - For example, annual subscription paid on May 1, 2025, is not subject to the tax, but a subscription that is paid monthly would exempt May and June 2025 payments, and the July 2025 payment would be subject to the 3% tax.



Other Resources For The Maryland Sales Tax On Data & Information Technology Services

- To open a new sales tax account to remit this tax create an account at www.mdtaxconnect.gov
 - Apply for a Maryland sales tax account by completing the Combined Registration Application available on the Maryland Tax Connect homepage.
 - After your application is submitted for processing, your sales tax license and a Maryland Tax Connect letter containing a unique PIN will be mailed to you. Allow 7-10 business days for processing and USPS mail.
 - Use the PIN in your letter to complete your Maryland Tax Connect profile registration and begin filing and paying sales tax via the Maryland Tax Connect portal.



Other Resources For The Maryland Sales Tax On Data & Information Technology Services

- The state has provided an in-depth Q&A that goes into several scenarios that detail the taxability of certain contracts that are effective before July 1, 2025.
 - <https://www.marylandcomptroller.gov/content/dam/mdcomp/tax/legal-publications/technical-bulletins/tb-56.pdf>
- The Comptroller will also continuously update taxpayers through the “Tax Updates” section of the Comptroller’s website.
 - <https://www.marylandcomptroller.gov/individuals/2025-tax-updates.html>



Sales Tax Exemptions Repealed

- The following items are no longer exempt from sales tax:
 - Photographic and artistic material used in advertising
 - Custom computer software (subject to the 3% tax)
 - Snack food purchased in a vending machine
 - Precious metal coins of bullion value at over \$1,000, except for sales at events held at the Baltimore Convention Center



Fee & Excise Tax Increases

- The following fee and excise tax increases are effective July 1, 2025:
 - Vehicle excise tax – 6.5% up from 6%
 - Rental vehicle tax – 3.5%
 - Cannabis sales tax – 12% up from 9%
 - Sports betting tax – 20% up from 15%
 - New tire fee – \$5 per tire
 - Vehicle emissions inspection fee – \$30 up from \$14



Maryland Pass-Through Entity Tax

- A provision allows Maryland resident shareholders/partners of businesses that have out of state income to allocate 100% of their share of income to Maryland to maximize their Maryland PTE tax credit
- This endangers S corporation treatment, so legislators have indicated that they would fix this in their next session through a new piece of legislation



Q&A

Please submit your questions using the Q&A button on the bottom of your screen.

Scan the QR code to subscribe to Gross Mendelsohn's blog!





Contact Us



410.685.5512



tvonlange@gma-cpa.com



dleipnik@gma-cpa.com

www.gma-cpa.com

Connect On Socials

