2025 Maryland Legislative Session Report

Overview

The 2025 legislative session of the Maryland General Assembly adjourned Sine Die on April 7, 2025. The Montgomery County Chamber of Commerce (MCCC) and our members had a productive session, but a difficult one. While we secured numerous victories that enhance or safeguard our economic competitiveness, there were also setbacks for the business community. The session's primary focus was addressing the State of Maryland's budget crisis, which led to tax and fee increases to balance the budget. Other priority issues addressed during the session included education, housing, and energy.

Budget Woes

The 90-day annual session was dominated by Maryland's challenging fiscal outlook and budget deficit, which totaled an estimated $3.3 billion for the current and upcoming fiscal year. Before the session, fiscal analysts were predicting a deficit of $6 billion by the end of the decade. Unlike the federal government, states must maintain a balanced budget. Deficits were largely attributable to a slow economy, higher than anticipated entitlement costs, growing costs for the Blueprint for Maryland's Future K-12 education reform, and potential federal government disruptions to state aid, spending, and employment. In the end, policymakers chose to address this deficit by a combination of tax increases and budget cuts.

In January at the start of the session, Governor Wes Moore proposed to the legislature a $67 billion budget consisting of $2 billion in budget cuts and $1 billion of new taxes and fees. By the close of session, legislators approved a budget that trims more than $2 billion from the budget but adds roughly $1.6 billion of new taxes and fees. These new taxes and fees balance the FY2026 budget and reduces the estimated FY2027 structural deficit to a more workable $300 million. Notable budget cuts include reductions to the State's public and private higher education system, cuts to reimbursement for medical providers under the State's Medicaid program, cost shifts to local governments, and cuts to various State agencies and programs.

Taxes and Fees

Policymakers chose to balance the budget through a mixture of budget cuts and new taxes and fees. While MCCC and other advocates fought against many of these proposals and were able to several important victories, policymakers approved approximately $1.6 billion in new taxes and fees. These include the following:

- Creates two new higher income tax brackets for individuals earning over $500,000 per year for single filers and $600,000 per year for joint filers (6.25%) and $1 million per year for single filers and $1.2 million for joint filers (6.5%)
- Phases out of itemization for those making over $200,000 per year
- Increases the standard deduction of $2,800 to $3,350 for single filers and from $5,600 to $6,700 for joint filers
- Implements a new 3% sales tax on data and IT services
- Authorizes counties to increase the maximum piggyback income tax rate from 3.2% to 3.3%
- Institutes a 2% capital gains surcharge on those with incomes over $350,000 per year
- Increases taxes on sports betting
- Increases taxes on cannabis

- Implements a 6% sales tax for vending machine purchases

Tech Tax
Legislators considered legislation that would have applied a 2.5% business-to-business sales tax on a broad range of services. While this bill did not pass, legislators essentially replaced it with a 3% sales tax on all technology services. This huge tax increase is expected to generate $482 million of revenue in FY2026. The services to be taxed include: (1) computing infrastructure providers, data processing, web hosting, and related services; (2) web search portals, libraries, archives, and other information services; and (3) computer systems design and related services. Exempted from the sales tax are: (1) the sales and use tax on data and information technology services; (2) the sale of cloud computing services to a qualified cybersecurity business; and (3) sales to or by a qualified company in an emerging technology development area.

Transportation Funding
Maryland has a dedicated fund to support transportation service and infrastructure needs called the Transportation Trust Fund (TTF). TTF is funded in large part by the state gas tax, which is currently 46.10 cents per gallon. However, the gas tax and other funding sources are not enough to keep up with the current pipeline of transportation projects in the six-year transportation plan. During the 2024 session, legislative leaders raised some taxes and fees to close this gap. Again, in the 2025 session, legislators chose to raise additional revenue to the tune of $500 million. New taxes and fees dedicated to TTF do the following:

- Implements a 2% capital gains surcharge on those with incomes over $350,000 per year (.75% of the 2% surcharge is dedicated to the TTF)
- Implements a $5 per new tire tax
- Increases the tax on new car purchases from 6% to 6.5%
- Implements a 3.5% excise tax on rental vehicles
- Accelerates the phase-in of higher vehicle registration fees
- Increases Vehicle Emissions Inspection Program fees from $14 to $30
- Doubles the certificate of title fee to $200

Taxes and Fees That Were Defeated
It is worth pointing out that while numerous taxes and fees were approved, there were also several proposals that were not adopted, which included:

- Implementing combined reporting
- Implementing a 2.5% business-to-business tax on a broad range of services
- Implementing a sugary drinks tax
- Lowering of the estate tax exemption
- Eliminating the inheritance tax
- Implementing a 75-cent retail delivery service fee

Blueprint for Maryland's Future Revisions
One of the significant cost drivers in future years is the Blueprint for Maryland's Future, which was legislation passed in 2021 meant to transform public education in Maryland into a world-class system. However, legislators passed the Blueprint for Maryland's Future without a funding source, and while it has been paid for through this year, costs escalate significantly through the rest of the decade. To help mitigate the costs of this unfunded mandate, legislative leaders passed legislation that reduces the annual funding that must be provided for FY2026 and delays, by one year, the phase-in of local boards of education agencies that require expenditures for collaborative time.

Energy Costs and Production

Maryland's energy concerns were, after the State's budget crisis, considered by many to be the most pressing policy challenge tackled during the 2025 session. Legislators sought to address critical energy issues, including rising ratepayer bills and energy production in the State. Maryland currently imports 40% of its energy from outside the state. Legislation that passed enhances utility spending oversight. Expedites new and cleaner in-state generation, prepares Maryland for capitalizing on nuclear technology as it advances, and provides $200 million in direct energy relief to consumers. Other legislation streamlines the development of solar generating stations and creates a new entity to assess current and future energy needs.

Building Energy Performance Standards

In 2022, the General Assembly passed the *Climate Solutions Now Act*, which among other things significantly altered greenhouse gas emissions standards. Concurrently, Montgomery County passed its own building energy performance standards (BEPS) regulating the greenhouse gas emissions for certain new and existing buildings. This session, legislation passed that requires the State Department of the Environment (MDE) to update statewide BEPS standards. Under the bill, MDE must introduce a County Certification allowing it to certify County BEPS programs. This, however, excludes Montgomery County. This is important because without the exclusion, buildings in Montgomery County would have had to comply with both the State and County standards, which do not align. The bill also alters the definition of "covered building" to exclude certain types of buildings, including hospitals, life sciences, and manufacturing. MDE is also required to conduct an analysis of the potential costs and benefits of BEPS policy options that feature direct emissions reduction requirements and energy use intensity requirements, and report on those findings by December 31, 2026.

Housing Affordability and Availability

Governor Wes Moore introduced legislation that sought to address Maryland's shortage of housing, particularly housing that is affordable. His initial version of the legislation sought to expedite housing development by requiring counties to automatically approve most qualifying housing project requests in areas where the state determined there was an imbalance between housing and jobs. However, this legislation was amended to require the State to set 10-year housing targets. In the end, the Senate and House did not agree on this issue and the legislation failed. It can be expected that the issue of housing affordability and availability will be a priority issue again during the 2026 session.

Workforce Development

Policymakers focused on some select workforce-related issues during the 2025 session. One of Governor Moore's top legislative priorities, the *Registered Apprenticeship Investments for a Stronger Economy (RAISE) Act,* streamlines and scales registered apprenticeships across industries and occupations through the creation of new State programs, including the Maryland Office of Registered Apprenticeship Development, the Registered Apprenticeship Qualified Intermediary Program, the Maryland Pay Per Apprentice Program, and the Registered Apprenticeship Development and Advisory Board. Another bill, the *Protect Our Federal Workers Act,* expands the purposes of certain state programs so that funds may be used to provide financial assistance to former federal employees.

Family and Medical Leave Insurance Program Delayed

The State's implementation of the Family and Medical Leave Insurance program was delayed again. Payroll deductions will now begin January 1, 2027, and benefits will now become available by January 3, 2028. While the program was made into law in 2022, the State has had difficulty implementing the program as intended and has now twice delayed the program's payroll deductions and benefits availability.

Maryland Small Business Innovation Research (SBIR) and Technology Transfer Incentive Program

The Chamber supported legislation that passed that alters existing statute which provides incentives to Maryland companies who receive Maryland Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) federal grants. These grants award non-dilutive funding to develop a company's technology technology and chart a path toward commercialization. The legislation gives the Maryland Technology Development Corporation more flexibility in awarding matching grants to small businesses engaged in high-risk early-stage research and development activities to advance innovation and entrepreneurship.

Notable Bills Opposed and Defeated
The following bills, which MCCC opposed, were defeated:

- ***Property Taxes - Authority of Counties to Establish a Subclass and Set a Special Rate for Commercial and Industrial Property*** would have authorized counties to establish differential rates for residential and commercial and industrial properties to fund transportation projects.

- ***County Income Tax - Rate and Income Brackets – Alterations*** would have increased the maximum income tax rate a county may impose from 3.2% to 3.7%. Please note that through the *Budget Reconciliation and Financing Act* passed during the 2025 session, counites received the authorization to raise their maximum allowable piggyback income tax rate to 3.3%.

- ***Civil Actions - Noneconomic Damages - Personal Injury and Wrongful Death*** would have repealed the caps on noneconomic damages in civil actions for personal injury or wrongful death.

- ***Unemployment Insurance Modernization Act of 2025*** would have expanded Maryland's unemployment insurance (UI) program by increasing both employee benefits and employer UI taxes and indexing several major components to wage growth or inflation.

- ***Declaration of Rights - Right to Minimum Wage for Tipped Workers*** would have by Constitutional Amendment phased out the tip credit for tipped employees beginning July 1, 2028. The bill would also have by Constitutional Amendment sought to increase the State's minimum wage to $20 per hour by July 1, 2028.

- ***Procurement Contracts and Public-Private Partnerships - Project Labor Agreements, Community Benefit Agreements, and Use of Registered Apprentices*** would have established requirements related to project labor agreements, community benefit agreements, and the use of registered apprentices under procurement contracts and public-private partnerships.

Looking Ahead
The 2025 legislative session posed significant challenges for Maryland's business community and taxpayers as policymakers chose to address the budget deficit by raising approximately $1.6 billion in taxes and fees. Despite these measures, ongoing fiscal uncertainty remains. Looking ahead, uncertainty at the federal level will continue to have a deleterious impact on the State of Maryland's economy, potentially necessitating further actions to maintain budget balance if economic disruptions exceed expectations. Should the FY2026 budget, which becomes effective on July 1, 2025, fall out of balance, a special session in the Fall may be required to address the issue.