



MULTISTATE INCOME/FRANCHISE TAX

## Maryland enacts changes to depreciation modifications and passthrough entity tax

### Tax Alert

### Overview

On April 8, 2026, Maryland [Senate Bill 284](#) (S.B. 284), the Budget Reconciliation and Financing Act of 2026, was enacted into law. Although S.B. 284 is a broad budget reconciliation measure, it includes several provisions affecting Maryland income tax provisions. Among other changes, S.B. 284 revises the calculation of the passthrough entity tax (“PTET”) applicable to taxable years beginning after December 31, 2026. S.B. 284 also limits the amount of bonus depreciation under Internal Revenue Code (“IRC”) section 168(k) allowed to be claimed by manufacturing entities and decouples from IRC section 168(n). S.B. 284 generally takes effect June 1, 2026, but certain income tax provisions apply to taxable years beginning after December 31, 2025, or December 31, 2026, as described below. Following enactment, the Maryland Comptroller’s Office issued a [tax alert](#) effective April 13, 2026, providing guidance on the impact of PTET changes contained in S.B. 284 on 2026 estimated payments and elections.

### PTET provisions under S.B. 284

In 2025, Maryland enacted changes to the PTET to expand the income base for electing passthrough entities beginning after December 31, 2025. Under those changes, passthrough entity taxable income for a resident member was amended to equal the member’s full distributive share or pro rata share of passthrough entity income, including income from trade or business activity both in and outside of Maryland (i.e., everywhere income), while passthrough entity taxable income for a nonresident member remained limited to income derived from or reasonably attributable to the passthrough entity’s trade or business in Maryland. The tax year 2026 Maryland Form 510/511D was updated to reflect those changes.

S.B. 284 delays the application of those changes to taxable years beginning after December 31, 2026, rather than after December 31, 2025, as originally enacted. For tax year 2026, electing passthrough entities should calculate passthrough entity taxable income for both resident and nonresident members using only the portion of income derived from or reasonably attributable to the passthrough entity’s trade or business in Maryland, consistent with the approach used for tax year 2025.

Beginning with taxable years after December 31, 2026, S.B. 284 amends the definition of passthrough entity’s taxable income to provide electing passthrough entities two options for calculating passthrough entity taxable income with respect to resident members. Under the amended definition, passthrough entity taxable income for a resident member is: (1) the member’s full distributive or pro rata share of passthrough entity income (i.e., everywhere income) or (2) income derived from or reasonably attributable to the passthrough entity’s trade or business in Maryland (i.e., Maryland-source income). For nonresident members, the income base remains Maryland sourced income regardless of which option the passthrough entity selects for resident members. An

electing passthrough entity must indicate in the form and manner prescribed by the Comptroller which calculation method it is using. If the electing passthrough entity does not indicate which method it is using, passthrough entity taxable income for a resident member is computed using the member's full distributive or pro rata share of passthrough entity income.

## **Maryland tax alert on 2026 PTET estimated payments**

Following enactment of S.B. 284, the Maryland Comptroller's Office issued a tax alert, effective April 13, 2026, providing guidance on the impact of S.B. 284 on tax year 2026 estimated payments. Electing passthrough entities should continue to calculate taxable income for both resident and nonresident members using only the portion of income derived from or reasonably attributable to the trade or business in Maryland, consistent with the approach used for tax year 2025. If an electing passthrough entity already made a first quarter 2026 estimated payment based on the expanded definition of passthrough entity taxable income, it may adjust the remaining estimated payment installments to reflect that overpayment. In addition, for tax year 2026, the Comptroller will disregard any PTET election, or nonelection, made with the first quarter filing and instead honor the election made with the next filing or payment made after April 15, 2026, which for most passthrough entities will be the second quarter estimated payment.

The Comptroller's tax alert also clarifies that Maryland's 2% surtax on certain net capital gain income, enacted by the 2025 law, is not part of the PTET computation. Instead, individuals must separately account for expected net capital gain income, including gain distributed from a passthrough entity, when determining their own estimated tax payments, because the PTET credit will not by itself cover that additional surtax.

## **Modifications for IRC sections 168(k) and 168(n)**

For tax years beginning after December 31, 2025, S.B. 284 modifies Maryland's depreciation related addition and subtraction adjustments. For a manufacturing entity, S.B. 284 limits the amount of IRC section 168(k) bonus depreciation allowance that a qualifying manufacturing entity may claim against Maryland taxable income to 20% of the adjusted basis of the qualified property, as well as creates corresponding modifications. For all other taxpayers, Maryland continues to decouple from IRC section 168(k). S.B. 284 also adds a new modification applicable to all taxpayers to decouple from IRC section 168(n).

## **Get in touch**

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