

Department of Legislative Services
 Maryland General Assembly
 2024 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 935 (Delegate Mireku-North, *et al.*)
 Ways and Means

Comprehensive Community Safety Funding Act

This bill establishes an 11% firearm, firearm accessory, and ammunition (FFAA) excise tax on the gross receipts of a federally licensed firearms dealer derived from the sales of firearms, firearm accessories, and ammunition in the State. The bill requires specified distributions of the revenue from the excise tax. The bill provides for the filing of specified tax returns and for the administration of the tax by the Comptroller. **The bill takes effect July 1, 2025.**

Fiscal Summary

State Effect: Special fund revenues increase by approximately \$22.4 million in FY 2026 and by \$25.0 million in FY 2029. Special fund expenditures for administrative costs increase by \$3.7 million in FY 2026 and by \$716,500 in FY 2029. Future year expenditures reflect annualization and inflation.

(\$ in millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
SF Revenue	\$0	\$22.4	\$23.2	\$24.1	\$25.0
SF Expenditure	\$0	\$3.7	\$0.7	\$0.7	\$0.7
Net Effect	\$0.0	\$18.7	\$22.6	\$23.4	\$24.3

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: None.

Small Business Effect: Potential meaningful. Small businesses that sell firearms, firearm accessories, and ammunition will be subject to the new excise tax. However, some portion of the cost of the new tax may be passed on to the consumers through increased prices.

Analysis

Bill Summary: The bill establishes an 11% FFAA excise tax on the gross receipts of the sale of firearms, firearm accessories, and ammunition in the State by a federally licensed firearms dealer. The bill specifies the distribution of revenue from the excise tax, administration of the excise tax by the Comptroller, filing of excise tax returns by licensed dealers, and the paying of excise taxes by licensed dealers.

Distribution of the Firearm, Firearm Accessory, and Ammunition Excise Tax Revenue

Revenue from the FFAA excise tax must be distributed as follows:

- 44% to the Maryland Trauma Physician Services Fund;
- 29% to the R Adams Cowley Shock Trauma Center at the University of Maryland Medical System;
- 23% to the Violence Intervention and Prevention Program Fund;
- 2% to the Survivors of Homicide Victims Grant Program within the Governor's Office of Crime Prevention and Policy; and
- 2% to the Center for Firearm Violence Prevention and Intervention within the Maryland Department of Health.

The bill specifies that it is the intent of the General Assembly that the excise tax revenue supplement, and not supplant, any other funding for these funds required by law.

Firearm, Firearm Accessory, and Ammunition Excise Tax Returns

A federally licensed firearms dealer must complete, under oath, and file an FFAA excise tax return with the Comptroller: (1) on or before the 25th day of the month that follows the month in which the person sells any firearms, firearm accessories, or ammunition within the boundaries of the State; and (2) if specified by the Comptroller, by regulation, on other dates for each month in which the licensee does not sell any firearms, firearm accessories, or ammunition in the State.

A person required to file an excise tax return must file with the return an attachment that states any information required by the Comptroller to determine the gross receipts derived from the sales of firearms, firearm accessories, and ammunition in the State. A person required to file an excise tax return must maintain records of the firearms, firearms accessories, and ammunition sold in the State and the basis for the calculation of the FFAA excise tax owed.

Payment of Firearm, Firearm Accessory, and Ammunition Excise Taxes

Each person required to file an excise tax return must pay the FFAA excise tax in the manner required by the Comptroller, with the return that covers the period in which the person sold firearms, firearm accessories, or ammunition in the State.

If a corporation, other than a nonstock, nonprofit corporation, is required to pay the FFAA excise tax, personal liability for the tax and interest and penalties on the tax extends to any officer of the corporation who exercises direct control over its fiscal management. If a limited liability company, or limited liability partnership, including a limited partnership registered as a limited liability limited partnership, is required to pay the FFAA excise tax, personal liability for the tax and interest and penalties on the tax extends to any person who exercises direct control over the fiscal management of the limited liability company or limited liability partnership.

The Comptroller may require a person subject to the FFAA excise tax to post security for the excise tax in the amount that the Comptroller determines. A person who willfully fails to file a required FFAA excise tax return is guilty of a misdemeanor and, on conviction, is subject to a fine up to \$5,000 or imprisonment up to five years or both.

Definitions

A federally licensed firearms dealer is a person licensed by the federal Bureau of Alcohol, Tobacco, Firearms and Explosives to deal in firearms.

A firearm accessory is: (1) a magazine or magazine loader; (2) a firearm scope or optic; (3) a stock; (4) a grip; (5) a handguard; or (6) body armor.

Gross receipts are defined as the total amount of the sale or lease or rental price of the retail sale by a person, valued in money, whether received in money or otherwise, without any deduction for: (1) the cost of the property sold; (2) the cost of the materials used, labor or service cost, interest paid, losses, or any other expense; or (3) the cost of transportation of the property. Gross receipts do not include: (1) cash discounts allowed and taken on sales; (2) the sale price of property returned by customers when that amount is refunded in cash or credit unless the customer, in order to obtain the refund, is required to purchase other property at a price greater than the amount charged for the property that is returned; (3) the price received for labor or services used in installing or applying the property sold; and (4) the amount of any tax imposed by the United States, the State, a county, or a municipality on or with respect to retail sales whether imposed on the person or the consumer.

A law enforcement agency is (1) a State, county, or municipal police department or agency; (2) a sheriff's office; or (3) a federal law enforcement agency.

Current Law: The federal government imposes an excise tax on firearms and ammunition (FAET) at a rate of 10% on the sales price of pistols and revolvers, and 11% on the sales price of other portable weapons (*e.g.*, rifles and shotguns) and ammunition. Federal law is enforced by the Alcohol and Tobacco Tax and Trade Bureau (TTB) of the U.S. Department of Treasury. The Maryland 6% State sales and use tax applies to the sale of firearms, ammunition, and firearm accessories. There are 787 federal firearm licensees in Maryland.

California Legislation

Beginning July 1, 2024, California will impose an 11% excise tax on the purchase of firearms and ammunition sold in the state. The tax is in addition to any federal excise taxes imposed. Revenue from the excise tax is directed toward funding violence prevention programs. Legislation establishing the excise tax was passed by the California legislature on September 7, 2023, and signed into law by Governor Gavin Newsom on September 26, 2023.

State Revenues: The bill imposes an 11% FFAA excise tax on the gross receipts of a federally licensed firearms dealer derived from the sales of firearms, firearm accessories, and ammunition in the State. As a result, special fund revenues increase by approximately \$22.4 million in fiscal 2026 and by \$25.0 million in fiscal 2029. The estimate is based on the following:

- for the period of July 1, 2022, through June 30, 2023 (Maryland fiscal 2023), TTB collected \$993.4 million in FAET revenues nationally;
- Maryland represents approximately 1.9% of the U.S. population; and
- firearm sales increase by approximately 3.8% annually.

To the extent that actual sales of firearms, ammunition, and firearm accessories in Maryland are different from the estimate (as a percent of the U.S. population), the amount of the revenue increase will vary accordingly.

The bill requires that the revenue derived from the FFAA excise tax be distributed to an administrative cost account and several special funds and programs, as noted above. **Exhibit 1** shows the distribution of FFAA excise tax revenue for fiscal 2026 and 2029.

Exhibit 1
Revenue Distribution from FFAA Excise Tax
(\$ in Millions)

	<u>FY 2026</u>	<u>FY 2029</u>
Total Excise Tax Revenues	\$22.4	\$25.0
Administrative Cost Account	3.7	0.7
<i>Net Special Fund Revenues</i>	<i>\$18.7</i>	<i>\$24.3</i>
Maryland Trauma Physician Services Fund	8.2	10.7
R Adams Cowley Shock Trauma Center	5.4	7.1
Violence Intervention and Prevention Program Fund	4.3	5.6
Survivors of Homicide Victims Grant Program	0.4	0.5
Center for Firearm Violence Prevention and Intervention	0.4	0.5

FFAA: firearm, firearm accessory, and ammunition

Source: Department of Legislative Services

State Expenditures: The bill requires the Comptroller to distribute to an administrative cost account the amount of FFAA excise tax revenue necessary to administer the new excise tax. The Comptroller’s Office advises that adding a new tax type to be collected and administered by the agency, will require additional personnel. This includes seven staff positions for the compliance division including one revenue examiner, one revenue specialist, one revenue administrator, two fiscal account clerks, one financial compliance auditor, and one financial compliance supervisor to form new tax compliance and tax auditing teams to manage and administer the new FFAA excise tax program.

In addition, the legal division will require one senior tax attorney to draft and promulgate regulations, assist in creating new tax forms and instructions, and develop tax guidance for impacted businesses. In addition, this position will be responsible for responding to taxpayer and tax practitioner inquiries, including any private letter ruling requests, and advising the operational sections of the Comptroller’s Office on compliance matters related to the new tax law.

Finally, the Comptroller’s Office will need to update the Compass/Relevant Passthrough Entity (known as Compass/RPE) tax system to accommodate the new FFAA excise tax. Based on estimates the Comptroller’s Office has received from vendors for adding other new tax types to the system, it is estimated that the cost of adding the FFAA excise tax to

the tax system will total approximately \$3.0 million in fiscal 2026. The cost includes discovery, design, development, testing, and interfaces.

As a result, special fund expenditures (from the administrative cost account) for the Comptroller's Office increase by approximately \$3.7 million in fiscal 2026 and by \$716,500 in fiscal 2029. The estimate reflects the July 1, 2025, effective date of the bill and assumes no start-up delay. The estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Regular Positions	8
Salary and Fringe Benefits	\$620,741
Computer Programming for Compass/RPE	3,000,000
Other Operating Expenses	<u>60,294</u>
Total FY 2026 Special Fund Expenditures	\$3,681,035

Future year expenditures reflect full salaries, with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: SB 784 (Senator Elfreth, *et al.*) - Budget and Taxation.

Information Source(s): Comptroller's Office; Department of State Police; Federal Alcohol and Tobacco Tax and Trade Bureau; Department of Legislative Services

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