

**Department of Legislative Services**  
 Maryland General Assembly  
 2024 Session

**FISCAL AND POLICY NOTE**  
**First Reader**

House Bill 1515 (Delegate Moon)  
 Ways and Means

**Sales and Use Tax - Rate Reduction and Services**

This bill imposes the State sales and use tax on all services, except for specified services, by expanding the definition of taxable service. The bill also reduces the general State sales and use tax rate from 6% to 5% for taxable goods and services. **The bill takes effect January 1, 2025.**

**Fiscal Summary**

**State Effect:** General fund revenues increase by \$772.2 million in FY 2025 and by \$2.6 billion in FY 2029. Blueprint for Maryland’s Future Fund (BMFF) revenues increase by \$98.4 million in FY 2025 and by \$363.7 million in FY 2029. General fund expenditures increase by \$2.3 million in FY 2025 and by \$1.8 million in FY 2029. Future years reflect annualization and inflation.

(\$ in millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GF Revenue	\$772.2	\$2,090.1	\$2,488.6	\$2,561.8	\$2,641.7
SF Revenue	\$98.4	\$276.9	\$342.6	\$352.6	\$363.7
GF Expenditure	\$2.3	\$1.6	\$1.6	\$1.7	\$1.8
Net Effect	\$868.3	\$2,365.5	\$2,829.5	\$2,912.7	\$3,003.6

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

**Local Effect:** Local government admissions and amusement tax revenues may decrease to the extent the State sales and use tax is imposed on services that are currently subject to local admissions and amusement taxes. Local expenditures are not affected.

**Small Business Effect:** Meaningful.

## Analysis

**Bill Summary:** NAICS is the *North American Industrial Classification System, United States Manual, 2022 Edition*, published by the United States Office of Management and Budget.

A taxable service is defined as any activity engaged in for a buyer for consideration. A taxable service does not include (1) an educational service (NAICS Sector 61); (2) a health care or social assistance service (NAICS Sector 62); (3) a service provided by a religious organization (NAICS Sector 8131); (4) a grantmaking or giving service (NAICS Sector 8132); (5) a service provided by a social advocacy organization (NAICS Sector 8133); (6) a service provided by a civic or social organization (NAICS Sector 8134); or (7) a service provided by a business, professional, labor, or political association (NAICS Sector 8139).

The bill establishes the intent of the General Assembly that the Governor's proposed budget for fiscal 2026, and for each fiscal year thereafter, include funding that is necessary to meet the needs of the Comptroller's Office to ensure compliance with and enforcement of the bill.

**Current Law:** The State sales and use tax rate is 6%, except for the sale of alcoholic beverages and cannabis products, which are taxed at a rate of 9%. Taxable services include cellular phone and other mobile telecommunications services; telephone custom calling features; 900-type telephone services; telephone answering services; prepaid telephone calling arrangements; security services; commercial building cleaning; certain commercial cleaning and laundering of textiles for businesses; credit reporting services; pay-per-view television; production of tangible personal property by special order; transportation services for transmission, distribution, or delivery of taxable electricity or natural gas; and consumption of wine not provided by a restaurant, club, or hotel.

### *State Sales and Use Tax*

The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$5.9 billion in fiscal 2024 and \$6.1 billion in fiscal 2025, according to the December 2023 revenue forecast. **Exhibit 1** shows the sales and use tax rates in surrounding states and the District of Columbia.

---

**Exhibit 1**  
**Sales and Use Tax Rates in Maryland and Surrounding States**

Delaware	0.0%
District of Columbia	6.0%; 10.0% for liquor sold for on-the-premises consumption and restaurant meals; 10.25% for alcoholic beverages for consumption off the premises, tickets to specified sporting events, and specified rental vehicles; 8.0% for specified soft drinks; 14.95% for transient accommodations; 18% for motor vehicle parking in commercial lots
Maryland	6.0% 9.0% for alcoholic beverages and cannabis products
Pennsylvania	6.0% plus 1.0% or 2.0% in certain local jurisdictions
Virginia*	5.3%; 1.0% for eligible food items; 1.0% for specified essential personal hygiene items
West Virginia	6.0% plus 1.0% in specified municipalities

\* An additional state tax of (1) 0.7% is imposed in localities in Central Virginia, Northern Virginia, and the Hampton Roads region; (2) 1.0% in Charlotte, Gloucester, Halifax, Henry, Northampton, Patrick, and Pittsylvania counties, and the City of Danville; and (3) 1.7% is imposed in James City County, York County, and Williamsburg (Historic Triangle). The sales and use tax rate for food and personal hygiene products decreased to 1.0% as of January 1, 2023.

---

*Blueprint for Maryland's Future Fund*

Chapter 33 of 2022 altered the distribution of sales and use tax revenues beginning in fiscal 2023. Chapter 33 requires the Comptroller, after making certain other distributions, to pay to the BMFF the following percentage of the remaining sales and use tax revenues:

- 9.2% for fiscal 2023;
- 11.0% for fiscal 2024;
- 11.3% for fiscal 2025;
- 11.7% for fiscal 2026; and
- 12.1% for fiscal 2027 and each subsequent fiscal year.

Chapter 33 also repealed the distribution of sales and use tax revenues to the BMFF from marketplace facilitators, certain out-of-state vendors, and specified digital products or digital codes.

## **State Revenues:**

### *Expansion of Sales Tax Base to Include Services*

Expanding the sales and use tax to include services could result in a total revenue increase of approximately \$1.4 billion in fiscal 2025 and \$4.2 billion in fiscal 2029. The estimate assumes that for fiscal 2025, total revenues are 75% of the revenues that might otherwise be collected and for fiscal 2026, 90% of revenues that might otherwise be collected to reflect any collection delays or administrative difficulties that may result from imposing the tax. The fiscal 2025 estimate also reflects the bill's January 1, 2025 effective date.

The estimate is based on product line and NAICS code data from the Economic Census survey conducted by the U.S. Census Bureau in 2012 and adjusted to fiscal 2025 using gross domestic product and consumer price index data for Maryland. The Economic Census data reflects sales by private sector businesses in Maryland with at least one paid employee. It does not include any sales by sole proprietors or sales of services that may be purchased by Maryland residents from providers outside of the State that would be subject to the sales tax. The estimate assumes a 5% reduction in taxable sales of the services specified by the bill in fiscal 2025. Future year revenues are expected to increase by approximately 3% annually. To the extent that there have been changes in the overall consumption of various services over the past several years, total sales and use tax revenues will be affected accordingly.

The estimate also does not include sales and use tax revenues that may be generated from several categories of services, such as transportation services, finance and insurance services, and real estate services due to a lack of reliable data upon which to base an estimate.

**Exhibit 2** shows the total revenue resulting from imposing a 5% sales and use tax on services. The 5% decline in taxable sales reflects sales that would not be subject to Maryland sales tax for two reasons: (1) the sale does not occur because the additional cost dissuades the purchaser; or (2) the sale is diverted to a neighboring state where the service is not subject to a sales tax or the sales tax rate is lower. To the extent that the impact on sales volume varies from what is projected, sales tax revenues would increase or decrease correspondingly.

As noted, Chapter 33 altered the distribution of sales and use tax revenues beginning in fiscal 2023. Therefore, any increase in sales and use tax revenues will also increase BMFF

revenues. Based on the estimate above, general fund revenues increase by approximately \$1.2 billion, and BMFF revenues increase by approximately \$157.0 million in fiscal 2025.

---

**Exhibit 2**  
**Revenue Increase from Sales Tax on Services**  
**(\$ in Millions)**

<b><u>Service Category</u></b>	<b><u>FY 2025</u></b>	<b><u>FY 2026</u></b>	<b><u>FY 2027</u></b>	<b><u>FY 2028</u></b>	<b><u>FY 2029</u></b>
Business Services	\$881.7	\$2,179.5	\$2,494.4	\$2,569.2	\$2,646.3
Professional Services	210.1	519.4	594.4	612.3	630.6
Information Services	54.8	135.6	155.1	159.8	164.6
Travel Services	9.0	22.2	25.4	26.2	27.0
Leisure and Recreation Services	53.0	131.1	150.0	154.5	159.2
Building Maintenance Services	27.8	68.7	78.7	81.0	83.4
Remediation and Waste Services	18.5	45.8	52.4	54.0	55.6
Maintenance and Repair Services	64.7	160.0	183.1	188.6	194.3
Personal Care Services	20.0	49.5	56.7	58.4	60.2
Personal Services	49.3	121.9	139.5	143.7	148.0
<b>Total Revenues</b>	<b>\$1,389.0</b>	<b>\$3,433.7</b>	<b>\$3,929.7</b>	<b>\$4,047.6</b>	<b>\$4,169.0</b>
General Fund	\$1,232.1	\$3,032.0	\$3,454.2	\$3,557.9	\$3,664.6
Blueprint Fund	\$157.0	\$401.7	\$475.5	\$489.8	\$504.5

Source: Department of Legislative Services

---

It should be noted that many of the categories of services that are estimated to generate significant revenue under the bill, including business services, professional services, and information services, are services that are largely consumed by businesses. To the extent that businesses decrease their purchases of these services, by performing the services in-house, for example, the revenue estimate would be lower.

*Sales Tax Rate Reduction*

Reducing the general sales and use tax rate from 6% to 5% will reduce total sales and use tax fund revenues by approximately \$518.4 million in fiscal 2025, which reflects the bill's January 1, 2025 effective date, and by approximately \$1.2 billion in fiscal 2029. The

estimate assumes a 0.94% increase in general taxable sales resulting from the sales tax rate reduction.

As noted, Chapter 33 altered the distribution of sales and use tax revenues beginning in fiscal 2023. Therefore, any decrease in sales and use tax revenues will also reduce BMFF revenues. Based on the estimate above, general fund revenues decrease by approximately \$459.8 million, and BMFF revenues decrease by approximately \$58.6 million in fiscal 2025, and by \$1.0 billion and \$140.8 million, respectively in fiscal 2029.

*Net Effect*

**Exhibit 3** shows the net effect of the two sales and use tax provisions of the bill.

---

<b>Exhibit 3</b>					
<b>Net Effect of HB 1515</b>					
<b>(\$ in Millions)</b>					
	<b><u>FY 2025</u></b>	<b><u>FY 2026</u></b>	<b><u>FY 2027</u></b>	<b><u>FY 2028</u></b>	<b><u>FY 2029</u></b>
<b>Rate Reduction</b>					
General Fund	(\$459.8)	(\$941.9)	(\$965.6)	(\$996.1)	(\$1,022.8)
Blueprint Fund	(58.6)	(124.8)	(132.9)	(137.1)	(140.8)
<b>Subtotal</b>	<b>(\$518.4)</b>	<b>(\$1,066.7)</b>	<b>(\$1,098.6)</b>	<b>(\$1,133.2)</b>	<b>(\$1,163.6)</b>
<b>Services</b>					
General Fund	\$1,232.1	\$3,032.0	\$3,454.2	\$3,557.9	\$3,664.6
Blueprint Fund	157.0	401.7	475.5	489.8	504.5
<b>Subtotal</b>	<b>\$1,389.0</b>	<b>\$3,433.7</b>	<b>\$3,929.7</b>	<b>\$4,047.6</b>	<b>\$4,169.0</b>
<b>Net Impact</b>					
General Fund	\$772.2	\$2,090.1	\$2,488.6	\$2,561.8	\$2,641.7
Blueprint Fund	98.4	276.9	342.6	352.6	363.7
<b>Total</b>	<b>\$870.6</b>	<b>\$2,367.1</b>	<b>\$2,831.2</b>	<b>\$2,914.4</b>	<b>\$3,005.4</b>

Source: Department of Legislative Services

---

**State Expenditures:** General fund expenditures increase by \$2.3 million (including certain one-time costs) in fiscal 2025 and by \$1.8 million in fiscal 2029. This estimate assumes that some portion of the Comptroller’s expenditures will need to occur prior to the bill’s effective date in order to begin sales and use tax collections on January 1, 2025.

The estimate reflects the cost of the Comptroller’s Office adding 20 new positions to administer the new sales and use tax on services. The new positions include 10 financial compliance auditors, 5 revenue examiners, 2 financial compliance audit supervisors, 2 senior tax attorneys, and 1 revenue specialist. Duties will include drafting regulations, taxpayer outreach and assistance, identifying and licensing new sales and use tax account holders, tax compliance and enforcement, and auditing new sales and use tax returns. The estimate also reflects a one-time expenditure increase of \$1.0 million in fiscal 2025 for computer programming modifications to the tax reporting and collection system. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	20
Salaries and Fringe Benefits	\$1,198,947
Computer Programming Modifications and Notification Costs	1,000,000
Equipment	128,920
Operating Expenses	<u>16,200</u>
<b>Total FY 2025 State Expenditures</b>	<b>\$2,344,067</b>

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

The bill requires that beginning in fiscal 2026, the Governor’s proposed budget must include funding that is necessary to meet the needs of the Comptroller’s Office to ensure compliance with and enforcement of the bill.

**Local Fiscal Effect:** Local admissions and amusement tax revenues may decrease to the extent the State sales and use tax is imposed on services that are currently subject to local admissions and amusement taxes.

The counties and municipalities are authorized to tax the gross receipts derived from (1) the charge for admission to any place furnishing a performance such as a movie theater or sports stadium; (2) the use or rental of sporting or recreational facilities; (3) the merchandise, refreshments, or services sold or served in connection with entertainment at a nightclub or a room in a hotel, restaurant, hall, or other place where dancing privileges, music, or other entertainment is provided; (4) use of a game of entertainment; and (5) use or rental of recreational or sports equipment.

Counties and municipalities may also impose a tax on admission for a reduced charge or at no charge to a place that otherwise charges admission. An admissions and amusement tax may not be imposed in a municipality by a county if the municipality already imposes a similar tax or specifically exempts any gross receipts from the admissions and amusement tax.

Each unit of local government sets its own single tax rate or range of rates. This rate is expressed as a percentage of gross receipts, up to a maximum rate of 10%. The Maryland Stadium Authority may impose an admissions and amusement tax at its facilities of up to 8%.

The local admissions and amusement tax is limited by the State sales and use tax. The maximum tax rate on the gross receipts subject to both the State sales and use tax and the local admissions and amusement tax may not exceed 11%. Therefore, if the 5% State sales and use tax proposed by the bill applies to these receipts, the local admissions and amusement tax may not exceed 6%.

**Small Business Effect:** Expanding the number of services subject to the sales tax may result in a decline in consumer purchases of these services in the State. To the extent possible, residents may purchase services in neighboring states where these services are not taxed (or are taxed at a lower tax rate) or may choose not to purchase these services at all. The extent to which this may occur cannot be reliably estimated, but a majority of Maryland residents live within a short distance to a neighboring state and, therefore, could have access to service providers located in other states. While the percentage will vary from service to service, it is likely that many of the service providers in each of the service categories are small businesses.

Retailers in Maryland could benefit from an increase in sales resulting from the decrease in the sales and use tax rate specified by the bill. Chapter 6 of the 2007 special session increased the general sales and use tax rate from 5% to 6%, and the fiscal and policy note for that legislation assumed a 0.95% reduction in sales due to the tax rate increase. As a point of reference, this would result in approximately \$9,500 in recouped sales for a business with \$1 million in gross sales after the rate is reduced back to 5%. However, the actual effect would vary by business.

**Additional Comments:** A significant contributing factor cited for the erosion of the sales tax base is a shift in the national economy from the consumption of goods, the traditional base of the tax, to the consumption of services. In an August 2019 letter to the Board of Revenue Estimates, the Comptroller's Bureau of Revenue Estimates discussed the changing nature of the State's sales and use tax. The letter noted that household consumption spending is shifting away from goods toward services, the vast majority of which are not taxable under the sales and use tax. The letter also noted that since the sales and use tax base is becoming a smaller share of consumption spending, the State collects less sales and use tax per dollar of consumption than in the past.

The extent to which services are taxed varies across the nation. Hawaii, New Mexico, South Dakota, Washington, and West Virginia tax services broadly; in fact, Hawaii, New Mexico, South Dakota, and West Virginia subject all sales of goods and services to



tax unless those goods or services are specifically exempt. Meanwhile, in other states, goods and services are not taxable unless specifically included in the tax base.

According to the National Conference of State Legislatures, states have faced several barriers to taxing services. These barriers include (1) administrative challenges in quantifying and tracking the value of services provided and determining where to source the sale of a service; (2) the difficulty in defining the new base (*i.e.*, developing clear definitions of services); and (3) tax pyramiding, where the taxes on business-to-business sales are factored into the final sale price of a product.

In Maryland, the State sales and use tax has been imposed broadly on the sale or use of tangible personal property but only narrowly on a few specifically enumerated services, as noted above. The Maryland General Assembly last considered legislation expanding the sales and use tax base to services in 2020 (See HB 1628 of 2020).

---

### **Additional Information**

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

**Designated Cross File:** None.

**Information Source(s):** Comptroller's Office; Maryland Department of Transportation; Department of Legislative Services

**Fiscal Note History:** First Reader - March 8, 2024  
rh/hlb

---

Analysis by: Michael D. Sanelli

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510

# Appendix 1

## Service Categories

---

**Business Services** include the following types of services: accounting/payroll services; office support services; employment services; data/IT services (including consulting, design, and training); consulting services; basic and applied research services; design/printing services; public relations/marketing services; building/property maintenance (including landscaping); and repair services (including heavy trucks and office/commercial equipment).

**Professional Services** include the following types of services: legal services; financial/tax services; architectural/engineering services; and interior design services.

**Information Services** include the following types of services: broadcasting – radio and television (local advertising); publishers – sale of advertising space (including online); sports and performing arts – advertising revenue (including sponsorship rights); licensing of media/software rights and other intellectual property; and publishing – software and Internet subscriptions and sales.

**Travel Services** include the following types of services: commissions/fees for reservation and travel services; trip planning, including pre-packaged and custom tours; visitor information and sightseeing tours; automobile club services; other travel services including travel insurance, checks, etc.

**Leisure and Recreation Services** include the following types of services: instruction – arts, theater, sports, photography, and music; pleasure craft docking, launching, storage, and utilities services; golf course and country club services; admissions to sporting events, live performance, movies, amusement parks, museums, etc.; amusement park and carnival games and rides; fitness/recreational sports centers, bowling alleys, skating rinks, etc. (including amateur club services); personal training services (at fitness/recreational sports centers); spa services (at fitness/recreational sports centers); and child day care services (at amusement/recreation facilities).

**Building Maintenance Services** include the following types of services: residential interior cleaning services (including carpets/floors); swimming pool cleaning and maintenance services; other cleaning services (including windows, gutters, chimney, and ventilation); residential pest extermination and control services; residential landscaping services; and miscellaneous (including snow removal and security system/lock installation).

**Remediation and Waste Services** include the following types of services: nonhazardous waste and recyclable collection, transportation, storage and disposal services; hazardous waste collection, transportation, treatment, and disposal services; and site and building remediation and environmental emergency response services.

**Maintenance and Repair Services** include the following types of services: repair of cars, light trucks, motor homes, and campers; computer hardware and consumer electronics; appliances and household furniture; clothing, footwear, watches, jewelry, and sports equipment; and value of service contracts (autos, appliances, etc.).

**Personal Care Services** include the following types of services: hair/skin/nail care services (including tanning and tattoo/piercing); massage services; and weight loss services.

**Personal Services** include the following types of services: veterinary and pet care services; funeral, burial, and cremation services; laundry and dry cleaning services; parking services (including off-street and valet); washing and cleaning services for cars and light trucks; photographic services (including portraits and photofinishing); driver education training; academic tutoring and exam preparation services; and miscellaneous services (including delivery charges, dating/social event planning/banquet room rentals).

Source: Product Line Data; 2012 Economic Census; U.S. Census Bureau.