

Department of Legislative Services
Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 877

(Senator Klausmeier)

Budget and Taxation

Sales and Use Tax - Taxable Price - Exemption for Trade-In Value of Portable Electronics

This bill provides an exemption from the State sales and use tax for the trade-in value of portable electronics. Specifically, the bill alters the definition of taxable price to exclude the value of credit provided for the trade-in of specified portable electronics accepted in partial payment toward the purchase of new or used portable electronics, if the value of the credit is separately stated on the invoice, bill of sale, or similar document provided to the purchaser. **The bill takes effect July 1, 2024.**

Fiscal Summary

State Effect: General fund and Blueprint for Maryland's Future Fund (BMFF) revenues decrease by a significant amount beginning in FY 2025. The potential State revenue loss could exceed \$20 million annually. Expenditures are not affected.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: Section 10-701 of the Insurance Article defines portable electronics as an electronic device, including its accessories, that is (1) easily or conveniently transported by hand by an individual and is used for communication, viewing, listening, recording, gaming, computing, or global positioning and (2) any other electronic device that is portable in nature, as approved by the Insurance Commissioner.

Portable electronics include (1) cellular or satellite phones; (2) pagers; (3) personal global positioning satellite units; (4) portable computers; (5) portable audio listening, video viewing, or recording devices; (6) digital cameras; (7) video camcorders; (8) portable gaming systems; (9) docking stations; and (10) automatic answering devices. Portable electronics do not include telecommunications switching equipment, transmission wires, cell site transceiver equipment, or other equipment and systems used by telecommunications companies to provide telecommunications service to consumers.

Current Law: 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
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 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 Fiscal Effect: General fund and BMFF revenues decrease by a significant amount beginning in fiscal 2025. The amount of the revenue decrease depends on the trade-in value of portable electronics that occur each year, which cannot be reliably estimated due to a lack of data.

As a point of reference, the Comptroller's Office estimates that total sales and use tax revenues could decrease by approximately \$20 million annually resulting from the trade-in value for cellular telephones, alone. Due to a lack of available data regarding the trade-in value of other types of portable electronics, a more precise fiscal estimate of the proposed tax exemption cannot be developed at this time.

As noted above, a \$20 million reduction in State sales and use tax revenues will reduce general fund revenues by \$17.7 million and BMFF revenues by \$2.3 million. The potential revenue loss from the proposed tax exemption could be significantly higher since the estimate only takes into account the trade-in values of cellular telephones.

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; Department of Legislative Services

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