

Department of Legislative Services
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FISCAL AND POLICY NOTE
First Reader

House Bill 386
Ways and Means

Sales and Use Tax - Transportation Network Services - Application and Rates

This bill imposes the State sales and use tax on specified transportation network services at a rate of 3.25% for services provided to a single passenger and 1.5% for services provided to multiple passengers and services provided by a transportation network operator, transportation network partner, or transportation network driver driving a zero-emission vehicle. Revenues collected from the tax are distributed to the Transportation Trust Fund (TTF). **The bill takes effect July 1, 2020.**

Fiscal Summary

State Effect: TTF revenues increase by a significant amount beginning in FY 2021. The amount of the revenue increase depends on the number of rides subject to the State sales and use tax and the taxable price of each ride. Under one set of assumptions, TTF revenues may increase by approximately \$15.0 million annually. State expenditures for the Comptroller's Office increase by \$64,200 in FY 2021.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: For purposes of the State sales and use tax, the bill expands the definitions of (1) *taxable price* to include the sale of transportation network services facilitated by a transportation network company, the full amount of consideration paid by a buyer for the sale of transportation network services and (2) *vendor* to include a person who engages in the business of a transportation network company.

Current Law: The Maryland State sales and use tax rate is 6%. 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.

Background: The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$5.0 billion in fiscal 2020 and 2021, according to the December 2019 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; and 8.0% for specified soft drinks
Maryland	6.0% 9.0% for alcoholic beverages
Pennsylvania	6.0% plus 1.0% or 2.0% in certain local jurisdictions
Virginia*	5.3%; 2.5% for eligible food items; 2.5% for specified essential personal hygiene items; both rates include 1.0% for local jurisdictions
West Virginia	6.0% plus 0.5% (in one municipality) or 1.0% (in 45 municipalities)

*An additional state tax of 0.7% is imposed in localities in Northern Virginia and the Hampton Roads region, and an additional 1.7% is imposed in localities in the Historic Triangle.

Transportation Network Companies, Operators, and Services

Chapter 204 of 2015 established a regulatory framework for transportation network services that encompass transportation network companies (such as Uber and Lyft) and transportation network operators to include licensing, criminal history records checks, insurance requirements, and assessments. The Public Service Commission (PSC) was required to adopt various regulations to implement the framework; the regulations became effective in March 2016.

In addition, a county or municipality that licensed or regulated taxicab services on or before January 1, 2015, either directly or through PSC, was authorized to impose an assessment on trips that originate within the county or municipality. Assessment is defined as a charge imposed by a local jurisdiction on each transportation network service that includes a passenger trip during transportation network coverage period three by an operator. Except for an exempt jurisdiction, an assessment may be up to \$0.25 per trip. Revenues generated from the assessments must be used for transportation purposes.

Two counties (Montgomery and Prince George's) and four municipalities (Annapolis, Brunswick, Frederick, and Ocean City) currently impose a \$0.25 per ride assessment on transportation network companies as authorized by Chapter 204. In fiscal 2019, these jurisdictions collected approximately \$6.0 million in assessments on approximately 24 million rides. The number of rides per capita varies considerably by jurisdiction, with Ocean City having the highest per capita rides (48 rides per capita), followed by Prince George's County (15 rides per capita), Annapolis (11 rides per capita), and Montgomery County (9 rides per capita). Frederick City (4 rides per capita) and Brunswick (0.3 rides per capita) had lower ride volumes.

Other States

Rhode Island imposes a sales tax on transportation network services such as Uber. In New York certain transportation network services are subject to the sales tax; however, transportation network companies prearranged trips are not subject to the sales tax if they are subject to another state assessment fee. Beginning January 1, 2019, personal transportation services in Iowa became subject to the state sales tax.

While Hawaii does not impose a sales tax, it does impose a general excise tax on specified transactions and activities. Effective January 1, 2020, sales made through a marketplace facilitator became subject to the state's general excise tax. Marketplace facilitators include transportation network companies.

State Revenues: TTF revenues increase by a significant amount beginning in fiscal 2021. The amount of the revenue increase depends on the number of rides subject to the State

sales and use tax and the taxable price of each ride. Under one set of assumptions, TTF revenues may increase by approximately \$15.0 million annually. This estimate is based on the number of rides in the six jurisdictions that currently impose an assessment on transportation network companies and extrapolating these results statewide. Facts and assumptions used in this estimate include:

- There were approximately 24 million rides in the six local jurisdictions that currently impose an assessment on transportation network companies.
- The number of rides are extrapolated statewide assuming that the number of rides will be higher in the more urbanized regions of the State.
- The average cost of a ride totals \$12.
- 50% of the rides are for single passengers (3.25% tax rate).
- 50% of the rides are for multiple passengers/special operators (1.5% tax rate).

Revenue increases in future years could be larger than estimated due to the continual growth in the use of transportation network services.

State Expenditures: The Comptroller's Office will incur additional expenses to notify approximately 107,000 registered transportation network drivers and operators of the sales and use tax change. Based on an estimated cost of \$0.60 per notification, general fund expenditures will increase by approximately \$64,200 in fiscal 2021.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

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