

Department of Legislative Services
 Maryland General Assembly
 2022 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 577 (Delegate Cox)
 Ways and Means

Motor Fuel Tax and Sales and Use Tax - Tax Holiday

This bill during fiscal 2023 (1) temporarily eliminates the State sales and use tax for a three-month period and (2) reduces certain motor fuel taxes by 15 cents per gallon during a six-month period. **The bill takes effect July 1, 2022.**

Fiscal Summary

State Effect: State revenues decrease by a total of \$1.67 billion in FY 2023 due to a reduction in sales and use tax revenues. Transportation Trust Fund (TTF) revenues decrease by \$236.2 million in FY 2023 due to the reduction in motor fuel tax revenues. General fund expenditures may increase by \$0.2 million in FY 2023 due to one-time implementation costs at the Comptroller’s Office. TTF expenditures decrease significantly in FY 2023 due to a reduction in motor fuel and certain sales and use tax revenues. In addition, the Maryland Department of Transportation (MDOT) will be required to reduce its capital program by a significant amount.

(\$ in millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
SF Revenue	(\$236.2)	\$0	\$0	\$0	\$0
GF/SF Rev.	(\$1,673.7)	\$0	\$0	\$0	\$0
GF Expenditure	\$0.2	\$0	\$0	\$0	\$0
SF Expenditure	(-)	\$0	\$0	\$0	\$0
Net Effect	(\$1,910.1)	\$0.0	\$0.0	\$0.0	\$0.0

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

Local Effect: Local highway user revenues decrease significantly in FY 2023. Local expenditures are not affected.

Small Business Effect: Small businesses will benefit from the proposed reduction in State sales and use and motor fuel taxes.

Analysis

Current Law:

State Sales and Use Tax

Except as otherwise specified, the State sales and use tax is 6% and revenues accrue to the general fund. Chapter 735 of 2019 required a marketplace facilitator and a marketplace seller to collect and remit the State sales and use tax under specified circumstances. Chapter 735 also specified that the first \$100.0 million in sales taxes collected from marketplace facilitators and certain out-of-state vendors be distributed to the general fund and revenues in excess of \$100.0 million from these sales and use taxes be distributed to the Blueprint for Maryland's Future Fund (Blueprint Fund). Revenues generated from the sales and use tax rate for short-term vehicle rentals in the State is distributed to the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund (55%) and TTF (45%).

Motor Fuel Taxes

As of July 1, 2021, the per gallon motor fuel tax rate is equal to 36.1 cents (gasoline and clean-burning fuel), 36.85 cents (special fuel/diesel), and 7.0 cents (aviation and turbine fuel).

The Transportation Infrastructure Investment Act of 2013 (Chapter 429) was enacted to substantially increase the amount of revenues available for transportation projects, primarily by increasing motor fuel taxes. Chapter 429 alters motor fuel taxes specifically by:

- indexing motor fuel tax rates, except for aviation and turbine fuel, to inflation beginning in fiscal 2014; and
- imposing a 1% sales and use tax equivalent rate on all motor fuel, except for aviation and turbine fuel, beginning in fiscal 2014 and increasing in several steps to 5% beginning in fiscal 2017.

Motor fuel tax rates are indexed to the annual change in the Consumer Price Index (CPI). On or before June 1 of each year, the Comptroller must calculate and announce the growth in the CPI and the motor fuel tax rates effective for the fiscal year beginning on the following July 1. The revenue generated as a result of the motor fuel tax rate indexing and sales and use tax is distributed to the TTF and is retained by MDOT.

State Revenues: The bill in fiscal 2023 (1) repeals for three months the State sales and use tax and (2) reduces for six months the motor fuel tax rate imposed on certain motor fuels.

As a result, general fund, TTF, Chesapeake and Atlantic Coastal Bays 2010 Trust Fund, and Blueprint Funds will decrease by an estimated \$1.67 billion in fiscal 2023 due to a reduction in sales and use tax revenues.

Reducing motor fuel taxes as specified by the bill will decrease TTF revenues by an estimated \$236.2 million in fiscal 2023.

These estimates do not reflect an increase in applicable purchases due to a reduction in the taxes imposed. Accordingly, revenue losses may be greater than estimated.

State Expenditures:

Transportation Trust Fund

A portion of TTF revenues is used to provide capital transportation grants to local governments. Accordingly, TTF expenditures decrease significantly in fiscal 2023. TTF revenues are used to fund the State capital program. MDOT advises that based on its estimated revenue decrease resulting from the reduction in motor fuel taxes, MDOT will be required to reduce its capital program by over \$200 million.

Comptroller's Office

The Comptroller's Office reports that it will incur a one-time general fund expenditure increase of \$224,300 in fiscal 2023 due to additional notification, programming, and tax form modification costs.

Local Revenues: Local governments receive a portion of TTF revenues through capital transportation grants. Under the bill, local highway user revenues will decrease significantly in fiscal 2023.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

Fiscal Note History: First Reader - February 15, 2022
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