

**Department of Legislative Services**  
Maryland General Assembly  
2023 Session

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

Senate Bill 314 (Senators Ready and Salling)  
Budget and Taxation

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**Sales and Use Tax - Musical Instruments - Exemption**

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This bill exempts the sale or rental of musical instruments used by a student from the State sales and use tax. The student must be (1) enrolled in an elementary or secondary school, or postsecondary institution or (2) registered with a local school system as receiving home instruction. **The bill takes effect July 1, 2023.**

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**Fiscal Summary**

**State Effect:** General fund and special fund revenues decrease by a significant amount beginning in FY 2024. Under one set of assumptions, total sales and use tax revenues decrease by approximately \$1.4 million annually. General fund expenditures increase by \$93,300 in FY 2024.

**Local Effect:** None.

**Small Business Effect:** None.

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**Analysis**

**Current Law:** The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$6.2 billion in fiscal 2023 and 2024, according to the December 2022 revenue forecast. **Exhibit 1** shows the sales and use tax rates in surrounding states and the District of Columbia.

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**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
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; both rates include 1.0% for local jurisdictions
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, and Patrick counties; and (3) 1.7% is imposed in localities in the Historic Triangle. The sales and use tax rate for food and personal hygiene products decreased to 1.0% as of January 1, 2023.

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*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 Blueprint for Maryland's Future Fund (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:** General fund and special fund revenues decrease by a significant amount beginning in fiscal 2024. The amount of the decrease depends on the number of students who rent or buy a musical instrument and the cost of each.

The Comptroller's Office estimates that total general fund and BMFF revenues may decrease by \$1.4 million annually beginning in fiscal 2024. This estimate is based on information from the Federal Reserve Economic Data and the U.S. National Center for Education Statistics.

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 may decrease by \$1.2 million, and BMFF revenues may decrease by \$0.2 million beginning in fiscal 2024.

**State Expenditures:** The Comptroller's Office will incur a one-time expenditure increase of \$93,300 in fiscal 2024 to (1) notify the approximately 130,000 sales and use tax account holders of the sales tax change and (2) make modifications to the Compass tax system.

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### **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** HB 24 (Delegate Szeliga) - Ways and Means.

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

**Fiscal Note History:** First Reader - February 1, 2023  
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