

Department of Legislative Services
Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 925
Ways and Means

(Delegate Buckel, *et al.*)

Sales and Use Tax - Exemption for Hearing Aid Products

This bill exempts the following items from the State sales and use tax: (1) a custom-made earmold for a hearing aid; (2) a battery or battery charger for a hearing aid; (3) a frequency modulated transmitter and receiver system for a hearing aid; (4) custom-made in-ear musician monitors; (5) a hearing aid supply; or (6) a hearing aid accessory. The bill also repeals the provisions of Chapter 637 of 2020, which exempted the sale of a custom-made earmold, a battery charger, or a receiver for an artificial hearing device from the State sales and use tax. **The bill takes effect July 1, 2023.**

Fiscal Summary

State Effect: General fund and special fund revenues decrease by a potentially significant amount beginning in FY 2024. General fund expenditures may increase by \$81,300 in FY 2024.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill defines the following terms:

- *Hearing Aid Accessory* – an item that connects directly to a hearing aid that is manufactured by a hearing aid company for specific use with the hearing aid. A hearing aid accessory includes a TV streamer, remote microphone, remote control, or phone clip.

- *Hearing Aid Supply* – an item essential to the function of a hearing aid. It includes a receiver, microphone cover, a wax filter, an earhook, a dome, or earmold tubing.

Current Law: Chapter 637 exempted the following hearing related equipment and parts from the State sales and use tax: (1) a custom-made earmold for an artificial hearing device; (2) a battery charger for an artificial hearing device; or (3) a receiver for an artificial hearing device. The bill also repealed the exemption for a replacement cord for an artificial hearing device.

State Sales and Use Tax

The State sales and use tax rate is 6%, except for the sale of alcoholic beverages, which are taxed at a rate of 9%. 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.

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
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.

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 potentially significant amount beginning in fiscal 2024. The amount of the decrease depends on the number and cost of frequency modulated transmitters for hearing aids, custom-made in-ear musician monitors, hearing aid supplies, and hearing aid accessories that are sold each year.

As a point of reference, total State sales and use tax revenues decrease by \$6,000 for every \$100,000 sales of exempt items that are sold each year.

Hearing Aid Statistics

Hearing loss is the third most common physical condition behind arthritis and heart disease, affecting people of all ages. According to the Johns Hopkins Cochlear Center for Hearing and Public Health, approximately 38.2 million Americans (14.3%) report some degree of hearing loss and 14% of those with hearing loss use a hearing aid. A pair of hearing aids costs approximately \$4,700. Age is the strongest predictor of hearing loss among adults; approximately two-thirds of adults aged 70 and over suffer from some degree of hearing loss.

Hearing aid sales in the United States totaled 4.73 million units in 2021. If sales to Maryland residents are proportionate to its share of the U.S. population (1.85%) and that each hearing aid lasts approximately five years, it is estimated that approximately 437,500 individuals in Maryland may be using a hearing aid.

Cost of Tax-exempt Equipment and Parts

An Internet search indicates that there are several types of custom-made in-ear musician monitors and prices vary by type. For example, custom made in-ear musician monitors can range in price from \$330 to \$1,250 and up to \$6,700 for a bundle with other accessories. An Internet search indicates that there are several types of transmitters and receiver systems ranging in price from \$100 to \$1,200 depending on brand and type.

State Expenditures: Based on an analysis of similar legislation, the Comptroller's Office may incur a one-time expenditure increase of \$81,300 in fiscal 2024 to notify the approximately 130,000 sales and use tax account holders of the sales tax change.

Additional Information

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

Designated Cross File: None.

Information Source(s): Comptroller's Office; Johns Hopkins Cochlear Center for Hearing and Public Health; Department of Legislative Services

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