

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 414

(Delegates Martinez and Young)

Ways and Means

Health and Taxation - Digital Social Media Services and the Mental Health Care Fund for Children and Youth

This bill imposes a tax on the gross revenues of specified digital social media services. After making deductions for the administration of the tax, the Comptroller is required to deposit the revenues received from the tax to the Mental Health Care Fund for Children and Youth, which is established by the bill. The bill provides for the filing of the tax returns and making tax payments. **The bill takes effect July 1, 2025, and applies to taxable years beginning after December 31, 2025.**

Fiscal Summary

State Effect: Special fund revenues increase by a significant amount beginning in FY 2026. Under one set of assumptions, State revenues increase by approximately \$30 million in the first full year that the digital social media gross revenues tax is imposed and collected. By year four of full implementation, State revenues could increase by over \$50 million. Special fund expenditures increase by \$2.2 million in FY 2026 and by \$904,600 in FY 2030. Future year expenditures reflect annualization and inflation.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary:

Digital Social Media Gross Revenues Tax

The bill imposes a tax on the annual gross revenues of a person derived from digital social media services in the State. The part of the annual gross revenues of a person derived from digital social media services in the State is determined using an apportionment fraction: (1) the numerator of which is the annual gross revenues of a person derived from digital social media services in the State and (2) the denominator of which is the annual gross revenues of a person derived from digital social media services in the United States. The Comptroller must adopt regulations that determine the state from which revenues from digital social media services are derived.

The digital social media gross revenues tax is imposed at the following rates:

- 5% of the assessable base for a person with global annual gross revenues of \$500.0 million through \$1.0 billion;
- 7.5% of the assessable base for a person with global annual gross revenues of \$1.0 billion through \$10.0 billion;
- 10% of the assessable base for a person with global annual gross revenues exceeding \$10.0 billion.

Revenues from the digital social media gross revenues tax are distributed to the Mental Health Care Fund for Children and Youth, after the Comptroller's administrative costs are deducted.

Tax Returns

Each person that has annual gross revenues derived from digital social media services in the State of at least \$1.0 million in a calendar year must complete, under oath, and file a return with the Comptroller on or before April 15 of the next year.

Each person that reasonably expects annual gross revenues derived from digital social media services in the State to exceed \$1.0 million must complete, under oath, and file with the Comptroller a declaration of estimated tax, on or before April 15 of that year. A person required to file a declaration of estimated tax for a taxable year must complete and file a quarterly estimated tax return on or before June 15, September 15, and December 15 of that year.

A person required to file a return must include an attachment with the return that states any information that the Comptroller requires to determine annual gross revenues derived from digital social media services in the State. A person must maintain records of digital social media services provided in the State and the basis for the calculation of the digital social media gross revenues tax owed.

Payment of Digital Social Media Gross Revenues Tax

Each person required to file a return must pay the digital social media gross revenues tax with the return that covers the period for which the tax is due. A person filing an estimated digital social media gross revenues tax return must pay (1) at least 25% of the estimated digital social media gross revenues tax shown on the declaration or amended declaration for a taxable year with the declaration or amended declaration that covers the year and with each quarterly return for that year and (2) any unpaid digital social media gross revenues tax for the year shown on the person's return.

Penalties

A person who willfully fails to file a digital social media gross revenues tax return is guilty of a misdemeanor and, on conviction, is subject to a fine of up to \$5,000 and/or imprisonment of up to five years.

Definitions

Annual gross revenues are defined as income or revenue from all sources, before any expenses or taxes, computed according to generally accepted accounting principles.

Assessable base is defined as the annual gross revenues derived from digital social media services in the State.

Digital social media service is defined as a service provided to the public through an Internet website or a mobile application that (1) includes features that allow a user to share images, text, or video through the Internet with other users of the service whom the user has met, identified, or become aware of through the use of the service and (2) has more than 1.0 million monthly active users in the United States or generates more than \$500.0 million in annual gross revenue, adjusted annually for inflation. A digital social media service does not include a service that is primarily used for (1) the sale or provision of professional services; (2) the sale of commercial products; or (3) if the service does not include the ability for content to be sent by a user directly to another user, the provision of news or information.

A user is defined as an individual or any other person who accesses a digital interface with a device.

Mental Health Care Fund for Children and Youth

The bill establishes the Mental Health Care Fund for Children and Youth for the purpose of improving access to mental health care services for children and youth in the State. Money expended from the fund can only be used for this purpose and is supplemental to and is not intended to take the place of funding that otherwise would be appropriated for improving access to mental health care for children and youth in the State.

Current Law: Chapter 37 of 2021 imposed a digital advertising gross revenues tax on the annual gross revenues of a person derived from digital advertising services in the State. The part of the annual gross revenues of a person derived from digital advertising services in the State must be determined using an apportionment fraction based on the annual gross revenues of a person derived from digital advertising services in the State and the annual gross revenues of a person derived from digital advertising services in the United States.

The tax is imposed at the following rates:

- 2.5% of the assessable base for a person with global annual gross revenues of \$100.0 million through \$1.0 billion;
- 5% of the assessable base for a person with global annual gross revenues of \$1.0 billion through \$5.0 billion;
- 7.5% of the assessable base for a person with global annual gross revenues of \$5.0 billion through \$15.0 billion; and
- 10% of the assessable base for a person with global annual gross revenues exceeding \$15.0 billion.

Revenues from the tax are distributed to the Blueprint for Maryland's Future Fund, after the Comptroller's costs to administer the tax are deducted.

State Revenues: The bill requires businesses that have at least \$500.0 million in global annual gross revenues to pay a tax on gross revenues derived from digital social media services in the State. After a deduction for administrative costs for the Comptroller's Office, revenue from the tax is distributed to the Mental Health Care Fund for Children and Youth. As a result, State special fund revenues may increase by a significant amount beginning in fiscal 2026.

Under one set of assumptions, special fund revenues could increase by approximately \$30 million in the first full year that the digital social media gross revenues tax is imposed

and collected. By year four of full implementation, special fund revenues could increase by over \$50 million. The assumptions used in the estimate are outlined below:

- Global digital social media revenues for the nine largest social media companies totaled \$205.7 billion in 2023.
- The United States represents 4.6% of global social media users.
- Maryland represents 1.9% of the total U.S. population.

Potential Litigation

The Comptroller's Office notes that the imposition of the tax could face legal challenges, which may impact the amount of revenue the State collects, particularly in the short term. While it is not possible to determine when potential legal challenges may arise, and how long they would take to resolve, this could limit the amount of any revenues collected from the tax while litigation is pending.

State Expenditures: Special fund expenditures for the Comptroller's Office increase by a significant amount beginning in fiscal 2026 to administer the digital social media gross revenues tax, which includes identifying businesses subject to the tax, processing and auditing tax returns and payments, enforcing tax compliance, and handling expected litigation.

As a result of the additional workload, the Comptroller's Office indicates that an additional 18 staff positions will be required at a cost of \$1.9 million in fiscal 2026. The additional staff include the following positions:

- 5 financial compliance auditors;
- 1 financial compliance auditor supervisor;
- 7 revenue examiners;
- 1 revenue specialist;
- 3 assistant Attorney Generals; and
- 1 senior tax attorney.

However, the Department of Legislative Services advises that a more limited number of staff positions would be required based on similar legislation in prior years. As a result, special fund expenditures for additional staff may increase by \$695,500 in fiscal 2026 and by \$904,600 in fiscal 2030. This estimate is based on 9 additional positions (2 financial compliance auditors, 3 revenue specialists, 2 tax consultants, 1 administrative officer, and 1 assistant Attorney General). It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

In addition, the Comptroller’s Office will incur additional computer programming expenses totaling approximately \$1.5 million in fiscal 2026 to add the new digital social media gross revenues tax to the current tax system. These costs include discovery, design, development, testing, and system interfaces.

Positions	9
Salaries and Fringe Benefits	\$628,861
Computer Programming and Modification	1,500,000
Operating Expenses	<u>66,595</u>
Total FY 2026 State Expenditures	\$2,195,456

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses.

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See HB 1372 of 2024.

Designated Cross File: None.

Information Source(s): Comptroller’s Office; Maryland Department of Health; Department of Legislative Services

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Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510