

Department of Legislative Services
 Maryland General Assembly
 2025 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 1045 (Senator Hettleman)
 Budget and Taxation

Sales and Use Tax - Taxable Business Services - Alterations

This bill expands the definition of taxable services to include specified business services and imposes a 2.5% State sales and use tax on those services, if both the provider and the buyer are businesses. **The bill takes effect July 1, 2025.**

Fiscal Summary

State Effect: General fund revenues increase by \$833.6 million in FY 2026 and by \$1.2 billion in FY 2030. Blueprint for Maryland’s Future Fund (BMFF) revenues increase by \$110.5 million in FY 2026 and by \$171.4 million in FY 2030. General fund expenditures increase by \$479,500 in FY 2026 and by \$307,900 in FY 2030. Future years reflect annualization and inflation.

(\$ in millions)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
GF Revenue	\$833.6	\$1,139.6	\$1,173.8	\$1,209.0	\$1,245.3
SF Revenue	\$110.5	\$156.9	\$161.6	\$166.4	\$171.4
GF Expenditure	\$0.5	\$0.3	\$0.3	\$0.3	\$0.3
Net Effect	\$943.6	\$1,296.2	\$1,335.1	\$1,375.2	\$1,416.4

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: NAICS is the *North American Industrial Classification System*, United States Manual, 2022 Edition, published by the United States Office of Management and Budget.

Under the bill, the definition of taxable service is expanded to include the following services if both the provider and the buyer are businesses:

- an accounting, bookkeeping, billing, or payroll service described under NAICS sector 5412;
- an office support service, including a service described under NAICS sector 561110, 5614, or 561910, other than those that are currently taxable;
- a permanent or temporary employee or contractor placement, including a service described under NAICS sector 5613;
- a data or information technology service described under NAICS sector 518, 519, or 5415;
- a system software or application software publishing service described under NAICS sector 5415;
- a consulting service described under NAICS sector 5416;
- an experimental development service described under NAICS sector 5417;
- a photography, design, or printing service, including a service described under NAICS sector 541420, 541430, or 541490;
- a lobbying, public relations, or marketing service described under NAICS sector 5418;
- a landscaping and nonresidential building or property maintenance service, including a service described under NAICS sector 561210, 5616, or 5617, other than a service that is currently taxable;
- a heavy truck or bus repair service described under NAICS sector 8111;
- a repair service described under NAICS sector 8112 or 8113;
- a financial planning or tax preparation service described under NAICS sector 5239 or 5412;
- an appraisal service described under NAICS sector 541990;
- a sports or performing arts advertising service; and
- a valet or parking service described under NAICS sector 812930, other than a public parking garage.

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

State Sales and Use Tax

The sales and use tax is the State’s second largest source of general fund revenue, accounting for approximately \$6.0 billion in fiscal 2025 and \$6.1 billion in fiscal 2026, according to the December 2024 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; 14.95% for transient accommodations; 18% for motor vehicle parking in commercial lots
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, Patrick, and Pittsylvania counties, and the City of Danville; and (3) 1.7% is imposed in James City County, York County, and Williamsburg (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 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: Expanding the State sales and use tax to include certain business-related services could increase State revenues by approximately \$944.1 million in fiscal 2026 and by \$1.4 billion in fiscal 2030. The estimate assumes that for fiscal 2026 total revenues are 75% of the revenues that might otherwise be collected to reflect any collection delays or administrative difficulties that may result from the imposition of the tax.

The estimate is based on product line and NAICS code data from the Economic Census survey conducted by the U.S. Census Bureau in 2012 and adjusted to fiscal 2026 using gross domestic product and personal consumption expenditure price index data for Maryland. The Economic Census data reflects sales by private sector businesses in Maryland with at least one paid employee. It does not include any sales by sole proprietors or sales of services that may be purchased by Maryland residents from providers outside of the State that would be subject to the sales tax. Future year revenues are assumed to increase by approximately 3% annually. To the extent that there have been changes in the overall consumption of various services over the past several years, total sales and use tax revenues will be affected accordingly.

Exhibit 2 shows the total revenue, as well as general fund and BMFF revenue resulting from imposing a 2.5% sales and use tax on specified business services. The estimate assumes a decline in taxable sales to reflect sales that would not be subject to Maryland sales tax for three reasons: (1) the sale does not occur because the additional cost dissuades the purchaser; (2) the sale is diverted to a neighboring state where the service is not subject to a sales tax, or the sales tax rate is lower; or (3) the sale is made to a government or nonprofit entity. To the extent that the impact on sales volume varies from what is projected, sales tax revenues will increase or decrease correspondingly. To the extent that businesses decrease their purchases of these services, by performing the services in-house, for example, revenues will be lower.

Exhibit 2
Projected Revenue Increase by Business Service
(\$ in Millions)

<u>Service Category</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>
Accounting/Payroll Services	\$32.9	\$45.2	\$46.5	\$47.9	\$49.4
Office Support Services	52.6	72.3	74.5	76.7	79.0
Employment Services	89.9	123.4	127.2	131.0	134.9
Data/IT Services	367.1	504.2	519.3	534.9	551.0
System /Application Software					
Publishing	44.8	61.5	63.3	65.2	67.2
Consulting Services	212.8	292.2	301.0	310.0	319.3
Experimental Development Services	3.8	5.3	5.4	5.6	5.8
Design/Printing Services	4.5	6.1	6.3	6.5	6.7
Public Relations/Marketing Services	35.8	49.2	50.6	52.2	53.7
Building/Property Maintenance	66.0	90.7	93.4	96.2	99.1
Repair Services	16.3	22.4	23.1	23.8	24.5
Financial/Tax Services	8.9	12.2	12.6	13.0	13.3
Sports or Performing Arts Advertising	3.8	5.2	5.3	5.5	5.7
Parking Services (including off-street and valet)	4.8	6.6	6.8	7.0	7.2
Total Revenues	\$944.1	\$1,296.5	\$1,335.4	\$1,375.5	\$1,416.7
GF	\$833.6	\$1,139.6	\$1,173.8	\$1,209.0	\$1,245.3
BMFF	\$110.5	\$156.9	\$161.6	\$166.4	\$171.4

BMFF: Blueprint for Maryland's Future Fund

GF: General Fund

IT: information technology

Source: Department of Legislative Services

State Expenditures: General fund expenditures for the Comptroller's Office increase by \$479,500 in fiscal 2026 and by \$307,900 in fiscal 2030. This estimate reflects certain one-time costs in fiscal 2026 and a 90-day start-up delay resulting from the bill's July 1, 2025, effective date.

The Comptroller’s Office will need to hire three financial compliance auditors to administer the new sales and use tax on various business services. Their duties will include identifying and licensing new sales and use tax account holders, tax compliance, and auditing new sales and use tax returns. The estimate reflects a one-time expenditure increase of \$250,000 in fiscal 2026 for computer programming modifications to the tax reporting and collection system. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	3.0
Salaries and Fringe Benefits	\$207,415
Computer Programming Modification Costs	250,000
Operating Expenses	<u>22,106</u>
Total FY 2026 State Expenditures	\$479,521

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

Small Business Effect: Expanding the number of services subject to the sales tax may result in a decline in business purchases of these services in the State. To the extent possible, businesses may purchase services in neighboring states where these services are not taxed (or are taxed at a lower tax rate) or may choose not to purchase these services at all. The extent to which this may occur cannot be reliably estimated, but a majority of Maryland residents live within a short distance to a neighboring state and, therefore, could have access to service providers located in other states. While the percentage will vary from service to service, it is likely that many of the service providers and purchasers in each of the service categories are small businesses.

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See HB 1515 of 2024.

Designated Cross File: HB 1554 (Delegate Moon) - Ways and Means.

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

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