

Department of Legislative Services
 Maryland General Assembly
 2025 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 846 (Delegate R. Lewis, *et al.*)
 Ways and Means and Environment and
 Transportation

Transportation Access and Revenue Act

This bill imposes the State sales and use tax on specified transportation-related services by expanding the definition of taxable services. The bill requires that revenue derived from the sales and use tax on transportation-related services be distributed to the Transportation Trust Fund (TTF). The bill prohibits this revenue from being distributed to the Gasoline and Motor Vehicle Revenue Account. **The bill takes effect July 1, 2025.**

Fiscal Summary

State Effect: TTF revenues increase by \$546.0 million in FY 2026 and by \$819.4 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
SF Revenue	\$546.0	\$749.8	\$772.3	\$795.5	\$819.4
GF Expenditure	\$0.5	\$0.3	\$0.3	\$0.3	\$0.3
Net Effect	\$545.5	\$749.6	\$772.0	\$795.2	\$819.1

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 (1) a transportation equipment manufacturing service (NAICS Sector 336); (2) a service provided by a transportation equipment and supplies (except motor vehicle) merchant wholesaler (NAICS Sector 42386); (3) a construction, transportation, mining, and forestry machinery and equipment rental and leasing service (NAICS Sector 53241); (4) an air transportation service (NAICS Sector 481); (5) a limousine service (NAICS Sector 485320); (6) a motor vehicle towing service (NAICS Sector 488410); (7) a courier and messenger service (NAICS Sector 492); (8) an automotive repair and maintenance service (NAICS Sector 8111); (9) a service related to the operation of a parking lot or garage (NAICS Sector 812930); or (10) a regulation and administration of transportation programs service (NAICS Sector 92612).

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.

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.

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.

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 transportation-related services could increase TTF revenues by approximately \$546.0 million in fiscal 2026 and by \$819.4 million 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 sales data from the Economic Census survey, organized by either product line or NAICS code, conducted by the U.S. Census Bureau in 2017. The data is adjusted to fiscal 2026 using personal consumption expenditure 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 resulting from imposing a 6% sales and use tax on specified transportation-related 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 would increase or decrease correspondingly. Also, it should be noted that the estimates for several of the service categories, including motor vehicle repair/maintenance, parking, and towing, include NAICS codes that are not listed in the bill in order to capture the full universe of potential sales as it assumed that the sales and use tax would be imposed on all such sales.

Exhibit 2
Projected Increase in TTF Revenues by Transportation-Related Services
(\$ in Thousands)

<u>Service</u>	<u>NAICS</u>	<u>FY 2026</u>	<u>FY 2030</u>
Transportation equipment manufacturing service	336	\$103,184	\$154,846
Transportation equipment and supplies merchant wholesaler	42386	9,341	14,018
Specified machinery and equipment rental and leasing service	53241	23,892	35,854
Air transportation service	481	164,149	246,334
Limousine service	485320	4,449	6,676
Motor vehicle towing service	488410	7,816	11,729
Courier and messenger service	492	86,906	130,418
Automotive repair and maintenance service	8111	134,722	202,175
Operation of a parking lot or garage	812930	11,537	17,313
Total		\$545,996	\$819,365

Source: Department of Legislative Services

It should be noted that some of the categories of services under the bill are services that may be largely consumed by businesses. To the extent that businesses decrease their purchases of these services, by performing the services in-house, for example, the revenue estimate would be lower.

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 transportation-related 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 consumer purchases of these services in the State. To the extent possible, residents 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 in each of the service categories are small businesses.

Additional Comments: The estimate also does not include sales and use tax revenues that may be generated from NAICS Sector 92, as that sector generally represents governmental entities, which would not be subject to the State sales and use tax.

Additional Information

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

Designated Cross File: None.

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

Fiscal Note History: First Reader - February 16, 2025
caw/hlb

Analysis by: Michael Sanelli

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