

Department of Legislative Services
 Maryland General Assembly
 2025 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 387 (Delegate Mireku-North, *et al.*)
 Ways and Means

Comprehensive Community Safety Funding Act

This bill establishes an 11% firearm excise tax on the gross receipts of a federally licensed firearms dealer derived from (1) the retail sale of firearms in the State and (2) the retail sale of firearms to State residents from a federally licensed firearms dealer that is located outside the State. The bill requires specified distributions of the revenue from the excise tax. The bill also provides for the filing of specified tax returns and for the administration of the tax by the Comptroller. **The bill takes effect July 1, 2027.**

Fiscal Summary

State Effect: Special fund revenues increase by \$15.0 million in FY 2028 and by \$16.2 million in FY 2030. Special fund expenditures for administrative costs increase by \$2.2 million in FY 2028 and by \$0.6 million in FY 2030. Future year expenditures reflect annualization and inflation.

(\$ in millions)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
SF Revenue	\$0	\$0	\$15.0	\$15.6	\$16.2
SF Expenditure	\$0	\$0	\$2.2	\$0.6	\$0.6
Net Effect	\$0.0	\$0.0	\$12.8	\$14.9	\$15.5

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

Local Effect: None.

Small Business Effect: Potential meaningful. Small businesses that sell firearms will be subject to the new excise tax. However, some portion of the cost of the new tax may be passed on to the consumers through increased prices.

Analysis

Bill Summary: The bill establishes an 11% firearm excise tax on the gross receipts of the sale of firearms in the State by a federally licensed firearms dealer located both within the State and outside the State. The bill specifies the distribution of revenue from the excise tax, administration of the excise tax by the Comptroller, filing of excise tax returns by licensed dealers, and the paying of excise taxes by licensed dealers.

The excise tax does not apply to the sale of a firearm to (1) a law enforcement agency; (2) the armed forces of the United States; (3) the National Guard; (4) a law enforcement officer; (5) a retired law enforcement officer; or (6) an individual for the exclusive purpose of competition shooting or match shooting.

The excise tax applies to (1) a retail sale made on or after July 1, 2027, by a federally licensed firearms dealer that is a large retailer and (2) a retail sale made by any other federally licensed firearms dealer on or after July 1, 2028.

For a federally licensed firearms dealer that is located outside the State, the excise tax only applies if the federally licensed firearms dealer, during the previous calendar year or the current calendar year (1) derives gross revenue from the sale of firearms to residents of the State that exceeds \$100,000 or (2) sells firearms to residents of the State for delivery into the State in 200 or more separate transactions.

Distribution of the Firearm Excise Tax Revenue

Revenue from the firearm excise tax must be distributed equally to the following:

- the Coordinated Community Supports Partnership Fund;
- the Maryland Trauma Physician Services Fund;
- the R Adams Cowley Shock Trauma Center at the University of Maryland Medical System;
- the Maryland Violence Intervention and Prevention Program Fund;
- the Survivors of Homicide Victims Grant Program within the Governor's Office of Crime Prevention and Policy; and
- the Center for Firearm Violence Prevention and Intervention within the Maryland Department of Health.

The bill specifies that it is the intent of the General Assembly that the excise tax revenue supplement, and not supplant, any other funding for these funds required by law.

Firearm Excise Tax Returns

A federally licensed firearms dealer must complete, under oath, and file an excise tax return with the Comptroller (1) on or before the 25th day of the month that follows the month in which the person sells any firearms within the boundaries of the State or to residents of the State and (2) if specified by the Comptroller, by regulation, on other dates for each month in which the licensee does not sell any firearms in the State or to residents of the State.

A person required to file an excise tax return must file with the return an attachment that states any information required by the Comptroller to determine the gross receipts derived from the sales of firearms in the State or to residents of the State. A person required to file an excise tax return must maintain records of the firearms sold in the State or to residents of the State and the basis for the calculation of the excise tax owed.

Payment of Firearm Excise Taxes

Each person required to file an excise tax return must pay the firearm excise tax in the manner required by the Comptroller, with the return that covers the period in which the person sold firearms in the State or to residents of the State.

If a corporation, other than a nonstock, nonprofit corporation, is required to pay the excise tax, personal liability for the tax and interest and penalties on the tax extends to any officer of the corporation who exercises direct control over its fiscal management. If a limited liability company, or limited liability partnership, including a limited partnership registered as a limited liability limited partnership, is required to pay the excise tax, personal liability for the tax and interest and penalties on the tax extends to any person who exercises direct control over the fiscal management of the limited liability company or limited liability partnership.

The Comptroller may require a person subject to the firearms excise tax to post security for the excise tax in the amount that the Comptroller determines. A person who willfully fails to file a required firearm excise tax return is guilty of a misdemeanor and, on conviction, is subject to a fine of up to \$5,000 or imprisonment of up to five years or both.

Definitions

A federally licensed firearms dealer is a person licensed by the federal Bureau of Alcohol, Tobacco, Firearms and Explosives to deal in firearms.

Gross receipts are defined as the total amount of the sale or lease or rental price of the retail sale by a person, valued in money, whether received in money or otherwise, without any deduction for (1) the cost of the property sold; (2) the cost of the materials used, labor or

service cost, interest paid, losses, or any other expense; or (3) the cost of transportation of the property. Gross receipts do not include (1) cash discounts allowed and taken on sales; (2) the sale price of property returned by customers when that amount is refunded in cash or credit unless the customer, in order to obtain the refund, is required to purchase other property at a price greater than the amount charged for the property that is returned; (3) the price received for labor or services used in installing or applying the property sold; and (4) the amount of any tax imposed by the United States, the State, a county, or a municipality on or with respect to retail sales whether imposed on the person or the consumer.

A law enforcement agency is (1) a State, county, or municipal police department or agency; (2) a sheriff's office; or (3) a federal law enforcement agency.

A law enforcement officer is an individual who in an official capacity is authorized by State or federal law to make arrests and required, as part of the individual's employment, to carry a firearm.

Current Law: The federal government imposes an excise tax on firearms and ammunition (FAET) at a rate of 10% on the sales price of pistols and revolvers and 11% on the sales price of other portable weapons (*e.g.*, rifles and shotguns) and ammunition. Federal law is enforced by the Alcohol and Tobacco Tax and Trade Bureau (TTB) of the U.S. Department of Treasury. The Maryland 6% State sales and use tax applies to the sale of firearms, ammunition, and firearm accessories. According to the Bureau of Alcohol, Tobacco, Firearms and Explosives, there are approximately 750 dealers with federal firearms licenses in the State.

State Revenues: The bill imposes an 11% firearm excise tax on the gross receipts of a federally licensed firearms dealer derived from the sales of firearms in the State or to residents of the State beginning July 1, 2027. As a result, special fund revenues increase by \$15.0 million in fiscal 2028 and by \$16.2 million in fiscal 2030. The estimate is based on the following:

- for the period of July 1, 2022, through June 30, 2023 (Maryland fiscal 2023), TTB collected \$639.0 million in FAET revenues nationally from firearm sales;
- Maryland represents approximately 1.85% of the U.S. population; and
- firearm sales increase by approximately 3.8% annually.

To the extent that actual sales of firearms in Maryland are different from the estimate (as a percent of the U.S. population), the amount of the revenue increase will vary accordingly.

The bill requires that the revenue derived from the firearm excise tax be distributed to an administrative cost account and several special funds and programs, as noted above. **Exhibit 1** shows the distribution of excise tax revenue for fiscal 2028 and 2030.

Exhibit 1
Revenue Distribution from Firearm Excise Tax
(\$ in Millions)

	<u>FY 2028</u>	<u>FY 2030</u>
Total Excise Tax Revenues	\$15.0	\$16.2
Administrative Cost Account	2.2	0.6
<i>Net Special Fund Revenues</i>	<i>\$12.8</i>	<i>\$15.5</i>
Coordinated Community Supports Partnership Fund	\$2.1	\$2.6
Maryland Trauma Physician Services Fund	2.1	2.6
R Adams Cowley Shock Trauma Center	2.1	2.6
Violence Intervention and Prevention Program Fund	2.1	2.6
Survivors of Homicide Victims Grant Program	2.1	2.6
Center for Firearm Violence Prevention and Intervention	2.1	2.6

Source: Department of Legislative Services

State Expenditures: The bill requires the Comptroller to distribute to an administrative cost account the amount of the excise tax revenue necessary to administer the new firearm excise tax. The Comptroller’s Office advises that adding a new tax type to be collected and administered by the agency, will require additional personnel. This includes seven staff positions for the compliance division including three revenue examiners, three financial compliance auditors, and one financial compliance supervisor to form new tax compliance and tax auditing teams to manage and administer the new firearm excise tax program.

In addition, the legal division will require one senior tax attorney to draft and promulgate regulations, assist in creating new tax forms and instructions, and develop tax guidance for impacted businesses. In addition, this position will be responsible for responding to taxpayer and tax practitioner inquiries, including any private letter ruling requests, and advising the operational sections of the Comptroller’s Office on compliance matters related to the new tax law.

Finally, the Comptroller’s Office will need to update the Compass/Relevant Passthrough Entity (known as Compass/RPE) tax system to accommodate the new firearm excise tax.

Based on estimates the Comptroller’s Office has received from vendors for adding other new tax types to the system, it is estimated that the cost of adding the firearm excise tax to the tax system will total approximately \$1.5 million in fiscal 2028. The cost includes discovery, design, development, testing, and interfaces.

As a result, special fund expenditures (from the administrative cost account) for the Comptroller’s Office increase by approximately \$2.2 million in fiscal 2028 and by \$0.6 million in fiscal 2030. The estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Regular Positions	8.0
Salaries and Fringe Benefits	\$628,738
Computer Programming for Compass/RPE	1,500,000
Other Operating Expenses	<u>61,160</u>
Total FY 2028 Special Fund Expenditures	\$2,189,898

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

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See SB 785 and HB 934 of 2024.

Designated Cross File: None.

Information Source(s): Comptroller’s Office; Governor’s Office of Crime Prevention and Policy; Maryland State Department of Education; University of Maryland Medical System; Maryland Department of Health; Department of Public Safety and Correctional Services; Department of State Police; Department of Legislative Services

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