

Department of Legislative Services
 Maryland General Assembly
 2025 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1508

(Delegate Wells)(By Request - Baltimore City Administration)

Ways and Means

Baltimore City - Sales Tax - Authorization

This bill authorizes Baltimore City to impose a sales tax of up to 2% on retail sales of tangible personal property and taxable services in the city. The Baltimore City sales tax is imposed in addition to the 6% State sales and use tax on these purchases. The Baltimore City sales tax must be collected and administered in the same manner as the State sales and use tax. **The bill takes effect July 1, 2025.**

Fiscal Summary

State Effect: Special fund expenditures for the Comptroller’s Office increase by \$879,000 in FY 2026; future years reflect annualization, inflation, and ongoing costs. Special fund revenues increase by a similar amount.

(in dollars)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
SF Revenue	\$879,000	\$149,900	\$156,600	\$163,700	\$170,600
SF Expenditure	\$879,000	\$149,900	\$156,600	\$163,700	\$170,600
Net Effect	\$0	\$0	\$0	\$0	\$0

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

Local Effect: Baltimore City revenues increase by up to \$200 million annually depending on the sales tax rate set by the city. City expenditures are not directly affected.

Small Business Effect: Meaningful.

Analysis

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.

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 and York counties, 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 the Blueprint for Maryland's Future Fund (BMFF) the following percentage of the remaining sales and use tax revenues:

- 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 Fiscal Effect: Special fund expenditures for the Comptroller's Office increase by \$879,044 in fiscal 2026, which accounts for a 90-day start-up delay due to the bill's July 1, 2025, effective date. This estimate reflects the cost of hiring one financial compliance officer and one revenue examiner to audit sales and use tax returns and payments, manage distributions, and enforce compliance. It includes salaries, fringe benefits, and ongoing operating expenses. The estimate also includes \$750,000 in computer programming expenses in fiscal 2026 to add the new Baltimore City sales tax to the current tax system and make modifications for the revenue distribution to the city. These costs include discovery, design, development, testing, and system interfaces.

Positions	2.0
Salaries and Fringe Benefits	\$114,306
Computer Programming Expenses	750,000
Operating Expenses	<u>14,738</u>
Total FY 2026 Comptroller Expenditures	\$879,044

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses. In addition, State special fund revenues increase by a similar amount each year which reflects the amount of the Baltimore City sales tax revenue needed to cover the administrative costs for the Comptroller's Office. This revenue is distributed to an administrative cost account and is reflected as a special fund revenue for this analysis.

Local Fiscal Effect: Based on fiscal 2024 State sales and use tax collections, as allocated by county, Baltimore City revenues could increase by approximately \$100 million annually if the city imposes a 1% sales tax rate and by approximately \$200 million annually if the city imposes a 2% sales tax rate. City expenditures are not directly affected.

Additional Information

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

Designated Cross File: SB 1037 (Baltimore City Senators) - Rules.

Information Source(s): Baltimore City; Comptroller's Office; State Department of Assessments and Taxation; Department of Legislative Services

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