

Department of Legislative Services
Maryland General Assembly
2026 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 600 (Senator Hester)
Budget and Taxation

Sales and Use Tax - Definition of Retail Sale - Alterations

This bill alters the definition of retail sale for purposes of the State sales and use tax to exclude specified sales of technology services under certain circumstances. **The bill takes effect July 1, 2026.**

Fiscal Summary

State Effect: Significant decrease in general fund revenues beginning in FY 2027. Under one set of assumptions, general fund revenues decrease by approximately \$228.4 million in FY 2027 and by \$288.7 million in FY 2031. Expenditures are not affected.

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: A retail sale does not include a sale of a specified data or information technology (IT) service or a system software or application software publishing service if: (1) the buyer intends to use or incorporate the taxable service into another one of these taxable services for sale; or (2) both the vendor and the buyer are members of the same affiliated group, or are related pass-through entities.

Current Law: Chapter 604 of 2025 (Budget Reconciliation and Financing Act of 2025) expanded the definition of taxable services under the State sales and use tax, beginning in fiscal 2026, to include data and IT services described under North American Industrial Classification System (NAICS) sectors 5132, 518, 519, and 5415. NAICS sector 5132

includes software publishing services and NAICS sectors 518, 519, and 5415 include, respectively, (1) computing infrastructure providers, data processing, web hosting, and related services; (2) web search portals, libraries, archives, and other information services; and (3) computer systems design and related services. Chapter 604 specified that the sales and use tax on data and IT services does not apply to (1) sales of cloud computing services to a qualified cybersecurity business or (2) sales to or by a qualified company in an emerging technology development area, which encompasses quantum computing research and development at the University of Maryland, College Park Campus.

Chapter 604 imposes a 3.0% sales and use tax on these data and IT services and distributes the revenue to the general fund. The December 2025 general fund revenue forecast assumes \$609.0 million in revenues from the data and IT services sales and use tax in fiscal 2027 and \$769.9 million in fiscal 2031.

State Fiscal Effect: The bill establishes a sales and use tax exemption for data and IT services that are used as inputs to produce other taxable services for sale. As a result, general fund revenues decrease by a significant amount beginning in fiscal 2027. The amount of the general fund revenue decrease depends on the amount and value of data and IT services used to produce other taxable services.

The Comptroller's Office reports that the U.S. Bureau of Economic Analysis provides data on output by industry in terms of the value of intermediate inputs and the value-added of final products. In general, intermediate inputs are the goods and services that are used in the production process to produce final goods and services. Using industry data for services that are comparable (data processing, hosting, and related services; computer systems design and related services; and information-communications-technology-producing industries) to the NAICS codes subject to the data and IT sales and use tax, the Comptroller's Office estimates that approximately 37.5% of the gross output of these industries are used as intermediate inputs, which would be exempted from taxation under this bill. As a result, general fund revenues decrease by approximately \$228.4 million in fiscal 2027 and by \$288.7 million in fiscal 2031, based on the current sales and use tax forecast for the data and IT services tax.

To the extent that the percentage of intermediate services exempted from the sales and use tax varies from the estimate, the effect on general fund revenues will vary accordingly. For example, if the estimated percentage of intermediate inputs exempt from tax is 20% of gross output, general fund revenues decrease by approximately \$121.8 million in fiscal 2027.

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; Department of Legislative Services

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me/hlb

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