Department of Legislative Services
Maryland General Assembly
2026 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1261   (Delegate Coley, *et al.*)

Economic Matters

Consumer Protection - Artificial Intelligence Toys (Artificial Intelligence Toy Safety Act)

This bill establishes child safety and data privacy requirements for toys featuring artificial intelligence (AI). The bill requires an AI toy to contain certain labeling and prohibits the manufacturer of such a toy from using specified data for marketing. The bill also establishes the AI Toy Safety Review Panel in the Consumer Protection Division of the Office of the Attorney General (OAG) to monitor manufacturer compliance with the bill and conduct independent audits and safety assessments. Violation of the bill is an unfair, abusive, or deceptive trade practice under the Maryland Consumer Protection Act (MCPA), subject to MCPA's civil and criminal penalty provisions. In addition, a manufacturer that violates any provision of the bill is subject to (1) a civil penalty of up to $50,000 *per violation* and (2) a mandatory recall of a noncompliant AI toy. **The bill takes effect July 1, 2026.**

Fiscal Summary

State Effect: General fund expenditures increase by approximately $407,700 in FY 2027 for staff; future years reflect annualization and inflation. The bill's imposition of existing penalty provisions is not anticipated to have a material impact on State revenues; however, to the extent fines are assessed as a result of enforcement actions, special fund recoveries may increase.

(in dollars)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Revenues	$0	$0	$0	$0	$0
GF Expenditure	407,700	483,600	505,900	528,600	551,700
Net Effect	($407,700)	($483,600)	($505,900)	($528,600)	($551,700)

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

Local Effect: The bill's imposition of existing penalty provisions does not have a material impact on local government finances or operations.

Small Business Effect: Meaningful.

Analysis

Bill Summary:

Prohibitions and Other Requirements

An AI toy produced, distributed, imported, or sold in the State may not (1) generate, display, or communicate specified content that could be harmful to a child or (2) encourage a child to interact with third-party online systems, including websites, applications, or other online services.

Moreover, an AI toy produced, distributed, imported, or sold in the State must include certain features (*e.g.*, a mechanism for easily obtaining and revoking parental consent, a mechanism that disables AI features and data collection functions if parental consent is not obtained or revoked, etc.).

Artificial Intelligence Safety Assessment

A manufacturer must conduct a child AI safety assessment for each AI toy produced, distributed, imported, or sold in the State that (1) describes foreseeable risks of operating the AI toy and (2) outlines the mitigation strategies for the foreseeable risks identified. An AI toy safety assessment must be conducted (1) before marketing or selling an AI toy in the State; (2) on an annual basis for each AI toy continuing to be marketed or sold in the State; and (3) following any significant change made to the AI feature of an AI toy. An initial AI safety assessment of an AI toy sold or marketed in the State on or before the bill's July 1, 2026 effective date must be conducted by January 1, 2027.

Child User Data Restrictions

A manufacturer may only collect the minimum child user data necessary for the operation of the core functionality of an AI toy; child user data collected by a manufacturer must also be encrypted. The bill prohibits an AI toy manufacturer from:

- selling, leasing, or otherwise transferring child user data to a third party;
- using child user data to train unrelated AI models or systems;

- using child user data for targeted advertising; or
- retaining child user data for more than 12 months unless the manufacturer obtains renewed parental consent.

A manufacturer must ensure that the parent or legal guardian of a child user of an AI toy has the ability to (1) easily access, review, download, and delete all child user data collected by an AI toy and (2) easily disable child user data collection without disabling the core functionality of the AI toy.

If a data breach (or suspected data breach) involving child user data occurs, a manufacturer must notify each readily identifiable parent or guardian of a child AI toy user within 48 hours after the breach (or suspected data breach) is discovered by the manufacturer.

Disclosures

An AI toy sold or distributed in the State must include a clear and conspicuous label (1) stating that the product uses AI and (2) directly or through the use of a quick response code identifying any type of data collected by the AI toy and providing information on how the interactions are stored, transmitted, or used (only if applicable).

A manufacturer that produces, distributes, imports, or sells an AI toy in the State must make publicly available an easily accessible AI safety summary report using plain, easily understandable language identifying:

- the age range that the AI toy is intended for;
- risks identified in the use of the AI safety assessment completed under the bill;
- the results of any testing of the AI toy; and
- directions that the parent or guardian of a child user may use to control or limit data collection or adaptive behaviors.

Advertising and Marketing Restrictions

A manufacturer may not:

- market or advertise an AI toy as an emotional companion, parental substitute, or psychological counselor;
- use a recording of (or generated content from) child interactions with the AI toy in any marketing or promotional materials without obtaining express parental consent; or
- use data collected from a child user of an AI toy to develop an AI toy advertisement targeted at children.

Artificial Intelligence Toy Safety Review Panel

The review panel is responsible for the following:

- reviewing manufacturer compliance with the requirements of the bill;
- conducting independent audits of any AI toy marketed, sold, or distributed to children in the State; and
- evaluating safety standards and making recommendations for statutory changes based on industry best practices.

By December 1, 2027 (and annually thereafter), the review panel must report to the General Assembly on manufacturer compliance, the results of independent audits, and potential statutory changes.

Current Law:

Artificial Intelligence

"AI" means a machine-based system that (1) can, for a given set of human-defined objectives, make predictions, recommendations, or decisions influencing real or virtual environments; (2) uses machine and human-based inputs to perceive real and virtual environments and abstracts those perceptions into models through analysis in an automated manner; and (3) uses model inference to formulate options for information or action.

For additional information on the status of AI in the State and nation, please see the **Appendix – Artificial Intelligence.**

Maryland Consumer Protection Act

An unfair, abusive, or deceptive trade practice under MCPA includes, among other acts, any false, falsely disparaging, or misleading oral or written statement, visual description, or other representation of any kind which has the capacity, tendency, or effect of deceiving or misleading consumers. The prohibition against engaging in any unfair, abusive, or deceptive trade practice encompasses the offer for or actual sale, lease, rental, loan, or bailment of any consumer goods, consumer realty, or consumer services; the extension of consumer credit; the collection of consumer debt; or the offer for or actual purchase of consumer goods or consumer realty from a consumer by a merchant whose business includes paying off consumer debt in connection with the purchase of any consumer goods or consumer realty from a consumer.

The Consumer Protection Division is responsible for enforcing MCPA and investigating the complaints of aggrieved consumers. The division may attempt to conciliate the matter, issue a cease-and-desist order, or file a civil action in court. A merchant who violates MCPA is subject to a fine of up to $10,000 for each violation and up to $25,000 for each repetition of the same violation. In addition to any civil penalties that may be imposed, any person who violates MCPA is guilty of a misdemeanor and, on conviction, is subject to a fine of up to $1,000 and/or imprisonment for up to one year.

State Fiscal Effect: As the bill establishes significant new responsibilities for OAG (including reviewing manufacturer compliance, conducting independent audits of AI toys, and evaluating safety standards), additional staff are necessary. Thus, general fund expenditures increase by $407,661 in fiscal 2027, which accounts for a 90-day start-up delay. This estimate reflects the cost of hiring one assistant Attorneys General; two technologists; and one administrative officer to perform the functions required by the bill. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	4.0
Salaries and Fringe Benefits	$371,098
Operating Expenses	36,563
Total FY 2027 State Expenditures	**$407,661**

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

Small Business Effect: The bill establishes numerous requirements, including those prohibiting "manufacturers" from taking specified actions. A "manufacturer" under the bill is a person engaged in the production, *distribution, importation, or sale* of an AI toy in the State. Small business manufacturers in Maryland are therefore subject to more stringent standards related to AI toys.

Additional Information

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

Designated Cross File: None.

Information Source(s): Office of the Attorney General (Consumer Protection Division); Judiciary (Administrative Office of the Courts); Department of Legislative Services

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Appendix – Artificial Intelligence

Artificial Intelligence – Generally

Artificial intelligence (AI) is a broad field of computer science that deals with the creation of "intelligent" systems that can reason, learn, and act autonomously. There are many different branches of AI, each with its own focus and set of techniques, such as machine learning, neural networks, robotics, expert systems, fuzzy logic, and natural language processing. AI research has been successful in developing algorithms for solving a wide range of problems, from game playing to conversation simulation.

AI use has expanded significantly in recent years. Many of the largest technology companies have each developed their own AI systems and have integrated the systems into their respective companies' products and services. AI's ability to quickly synthesize and summarize vast amounts of data and apply the results have made it a useful tool in modern society while also raising questions about its use. The following list briefly describes a few of the impacts of and issues surrounding AI.

- Related to education, AI may have potential benefits to help tutor or otherwise provide additional resources to assist students in their studies. However, some students use AI to cheat on their schoolwork;
- Related to energy use, the significant power draw necessary to run the data systems that host AI systems has contributed to localized energy shortages and increased energy costs;
- Regarding environmental issues, these data centers require a significant amount of water for cooling and increasingly have been using freshwater resources for this purpose;
- Related to criminal justice, AI image and video generation systems can be used to make "deep fake" pictures and videos that may be difficult or impossible to differentiate from actual events;
- AI's reliance on information from the internet has raised concerns regarding the accuracy of AI-generated content as well as copyright infringement and data privacy.
- Related to health, AI is being used to assist doctors in developing medical diagnoses, but is also being used by insurance companies to screen requests for care and claims;
- Related to labor and employment, the expansion of AI has led to concerns about employees being replaced by AI systems as a means to save money on labor costs.

Governance at the State Level

The State defines AI as a machine-based system that (1) can, for a given set of human-defined objectives, make predictions, recommendations, or decisions influencing real or virtual environments; (2) uses machine and human-based inputs to perceive real and virtual environments and abstracts those perceptions into models through analysis in an automated manner; and (3) uses model inference to formulate options for information or action. At the State level, AI is governed primarily by the Department of Information Technology (DoIT) and the Governor's AI Subcabinet. This governance structure was established by Chapter 496 of 2024 and, broadly speaking:

- requires DoIT to adopt policies and procedures, in consultation with the Governor's AI Subcabinet, concerning the development, procurement, deployment, use, and ongoing assessment of systems that employ high-risk AI by a unit of State government;
- prohibits units of State government from procuring or deploying a new system that employs AI unless the system complies with the policies and procedures adopted by DoIT;
- requires each unit of State government to conduct a data inventory to identify data that meets criteria established by the Chief Data Officer and that is (1) necessary for the operations of the unit or otherwise required to be collected as a condition to receive federal funds or by federal or State law and (2) in a form prescribed by the Chief Data Officer, including when the data is used in AI; and
- requires each unit of State government to conduct an inventory of systems that employ high-risk AI.

Most recently, DoIT and the subcabinet have released the [2025 Maryland AI Enablement Strategy & AI Study Roadmap](#), which includes plans for studying opportunities, risks, and next steps associated with the use of AI in State services. Additionally, in November 2025, the Governor's Office announced a [State partnership](#) with two AI companies to integrate certain AI systems into a portion of the State's workforce.

Other Recent State Laws and Policies

In addition to the direct governance effectuated by Chapter 496, various other laws and policies address some of the issues posed by AI.

Chapter 105 of 2025 established the Workgroup on AI Implementation to monitor issues and make recommendations related to AI, including (1) the regulation of AI used in decisions that significantly impact the livelihood and life opportunities of individuals in the State; (2) deployer and developer obligations related to labor and employment and

protection of individual privacy rights; (3) protection of consumer rights; (4) current private sector use of AI; (5) general AI disclosures for all consumers; (6) enforcement authority for the Office of the Attorney General's Consumer Protection Division; and (7) the impact of the use of AI in the determination of government benefits. The first report from the workgroup is due July 1, 2026.

Chapter 747 of 2025 requires a carrier (*i.e.*, insurance company or another organization that provides health benefit plans), pharmacy benefits manager, or a private review agent that uses AI, algorithms, or other software tools for utilization review (including working through an entity that uses such tools) to ensure that such tools are used in a specified manner. Notably, the Act specifies that an AI, algorithm, or other software tool may not deny, delay, or modify health care services and that carriers must submit in their quarterly appeals and grievance reports whether an AI, algorithm, or other software tool was used in making an adverse decision.

Chapter 17 of the 2025 special session established an AI Evidence Clinic Pilot Program in the Administrative Office of the Courts to provide expertise in AI to the circuit courts and the District Court in the form of expert testimony on the authenticity of electronic evidence that a court determines may have been created or altered using AI.

Regarding education, the Maryland State Department of Education has begun an AI initiative to develop policies and procedures for AI use by students and teachers. Additionally, Chapter 237 of 2025 specifies that, for school years 2025-2026 through 2027-2028, certain requirements for the procurement and use of digital tools to assure equivalent access to technology for students with disabilities do not apply to digital tools that use AI.

Federal Action

The National Artificial Intelligence Initiative Act of 2020 became law on January 1, 2021. The aim of the Act is to promote U.S. leadership in AI research and development with the goal of accelerating the nation's economic prosperity and national security through the development and use of trustworthy AI in the public and private sectors and preparation of the workforce for the inevitable integration of AI systems. This multi-agency initiative has included work by the U.S. Department of Energy, in consultation with the National Institute of Standards and Technology, to develop the AI Risk Management Playbook as a reference guide to support responsible and trustworthy AI use and development. Though not a binding document, the playbook addresses common AI risks and steps that AI leaders, practitioners, and procurement teams can take to manage data privacy and bias risks.

Other Executive Orders guiding and governing AI use of the federal level signed during the previous administration were revoked under the current administration. Moreover, an

Executive Order signed in December 2025 generally expresses the federal government's attempt to preempt State AI laws and regulations, directs certain federal agencies to penalize states that are found to not be in compliance with the preemption, and directs certain federal entities to prepare a legislative recommendation establishing a uniform federal policy framework for AI that preempts state AI laws.