

Department of Legislative Services
Maryland General Assembly
2026 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 405

(Senator M. Washington)(By Request - Baltimore City
Administration)

Budget and Taxation

Sales and Use Tax - Distribution - City of Baltimore

This bill requires the Comptroller to pay Baltimore City an amount equal to one-third of the amount of State sales and use taxes collected and remitted from retail sales that occur in Baltimore City. **The bill takes effect July 1, 2026.**

Fiscal Summary

State Effect: General fund revenues decrease by approximately \$185.5 million and Blueprint for Maryland's Future Fund (BMFF) revenues decrease by approximately \$25.5 million in FY 2027. General fund expenditures increase to offset the reduction to BMFF revenues. The impact in future years reflect the current revenue forecast.

(\$ in millions)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
GF Revenue	(\$185.5)	(\$190.1)	(\$194.7)	(\$200.0)	(\$205.7)
SF Revenue	(\$25.5)	(\$26.2)	(\$26.8)	(\$27.5)	(\$28.3)
GF Expenditure	\$0	\$51.7	\$26.8	\$27.5	\$28.3
SF Expenditure	\$0	(\$51.7)	(\$26.8)	(\$27.5)	(\$28.3)
Net Effect	(\$211.1)	(\$216.3)	(\$221.5)	(\$227.5)	(\$234.0)

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

Local Effect: Baltimore City revenues increase by approximately \$211.1 million in FY 2027 and by \$234.0 million in FY 2031. Expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law:

Sales and Use Tax

The general State sales and use tax rate is 6%. Higher sales and use tax rates apply to the retail sale of alcoholic beverages and adult-use cannabis, which is taxed at 9% and 12%, respectively.

The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$6.1 billion in fiscal 2026 and \$6.2 billion in fiscal 2027, according to the December 2025 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; 18.0% for motor vehicle parking in commercial lots
Maryland	6.0%; 9.0% for alcoholic beverages; 12.0% for adult-use cannabis
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.

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 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.

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: The bill requires that one-third of State sales and use tax revenues from sales made in Baltimore City be distributed to Baltimore City beginning in fiscal 2027. As a result, total sales and use tax revenues decrease by approximately \$211.1 million in fiscal 2027 and by \$234.0 million in fiscal 2031. The estimate is based on (1) the current sales and use tax forecast, including mandated distributions and (2) the assumption that Baltimore City represents 9.1% of the State's population and retail sales in the city are made in the same proportion.

As noted, any decrease in State sales and use tax revenues will reduce both general fund and BMFF revenues. Based on the estimate above, general fund revenues decrease by approximately \$185.5 million in fiscal 2027 and by \$205.7 million in fiscal 2031 and BMFF revenues decrease by approximately \$25.5 million in fiscal 2027 and by \$28.3 million in fiscal 2031.

Since the BMFF is used to fund several education aid programs under the Blueprint Initiatives, redirecting a portion of the State sales and use tax will require a corresponding increase in general fund expenditures. There are sufficient revenues in the Blueprint fund balance to cover the reduced sales tax revenues in fiscal 2027; however, the State will incur higher general fund expenditures beginning in fiscal 2028 to cover the reduction in BMFF revenues. The projected increase in general fund expenditures totals \$51.7 million in fiscal 2028, \$26.8 million in fiscal 2029, \$27.5 million in fiscal 2030, and \$28.3 million in fiscal 2031.

Local Fiscal Effect: Based on the assumptions used in the State estimate, Baltimore City revenues increase by approximately \$211.1 million in fiscal 2027 and by \$234.0 million in fiscal 2031.

State Aid to Baltimore City

Under current law, Baltimore City is projected to receive \$1.9 billion in State aid in fiscal 2027, this represents a \$86.8 million or 4.8% increase from the prior year. Of this amount, \$1.35 billion is targeted to the public school system and \$423.9 million is targeted to the city government. Funding for the city government includes \$267.4 million in transportation grants, \$41.9 million in public safety grants, \$79.1 million in disparity grants, \$25.9 million in gaming impact grants, and \$8.0 million for a new dispatch system. In fiscal 2027, Baltimore City receives both the highest level of State aid on a per capita basis (\$3,329 compared to the statewide average of \$1,900) and on an annual percent change basis (4.8% compared to the statewide average of 3.2%).

Additional information on the amount of State aid provided to local governments, including Baltimore City and county governments, is provided in the [Overview of State Aid to Local Governments Report](#). A copy of the report is available on the Department of Legislative Services [website](#).

Additional Information

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

Designated Cross File: HB 594 (Delegate Lewis, *et al.*) (By Request - Baltimore City Administration) - Ways and Means.

Information Source(s): Comptroller's Office; Department of Legislative Services

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caw/hlb

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