

Department of Legislative Services  
 Maryland General Assembly  
 2018 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 1521 (Delegate Glass, *et al.*)  
 Ways and Means

Sales and Use Tax - Exemption - Bluetooth

This bill exempts from the State sales and use tax the sale of a Bluetooth headset or a consumer electronic device designed to aid in hands-free device use while driving if the taxable price of the headset or device is \$500 or less. **The bill takes effect July 1, 2018, and terminates June 30, 2021.**

Fiscal Summary

**State Effect:** General fund revenues decrease by a significant amount in FY 2019 through 2021. Under one set of assumptions, revenues decrease by \$1.4 million each year. General fund expenditures increase by \$81,300 in FY 2019.

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	(\$1,410,000)	(\$1,410,000)	(\$1,410,000)	\$0	\$0
GF Expenditure	\$81,300	\$0	\$0	\$0	\$0
Net Effect	(\$1,491,300)	(\$1,410,000)	(\$1,410,000)	\$0	\$0

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

**Local Effect:** None.

**Small Business Effect:** Minimal.

Analysis

**Current Law/Background:** The sales and use tax is the State’s second largest source of general fund revenue, accounting for approximately \$4.6 billion in fiscal 2018 and \$4.7 billion in fiscal 2019, according to the December 2017 revenue forecast. **Exhibit 1** shows the sales and use tax rates in surrounding states and the District of Columbia.

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**Exhibit 1**  
**Sales and Use Tax Rates in Maryland and Surrounding States**

Delaware	0.0%
District of Columbia	5.75%; 10.0% for liquor sold for off-the-premises consumption and restaurant meals, liquor for consumption on the premises, and rental vehicles
Maryland	6.0% 9.0% for alcoholic beverages
Pennsylvania	6.0% plus 1.0% or 2.0% in certain local jurisdictions
Virginia*	5.3%; 2.5% for eligible food items; both rates include 1.0% for local jurisdictions
West Virginia	6.0% plus 0.5% (in two municipalities) or 1.0% (in 37 municipalities)

\*An additional state tax of 0.7% is imposed in localities in Northern Virginia and the Hampton Roads region.

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**State Fiscal Effect:** General fund revenues decrease in fiscal 2019 through 2021. The amount of the revenue decrease depends on the number of specified headsets or hands-free devices that are sold and the cost of each device. An Internet search indicates that the price of Bluetooth headsets and hands-free devices can range from \$20 to over \$150. The bill limits the sales tax exemption to devices costing \$500 or less. General fund revenues will decrease by \$1.20 for each \$20 device that is purchased and by \$9 for each \$150 device that is purchased.

The Motor Vehicle Administration reports that, for fiscal 2018, there are approximately 4.7 million vehicles registered in the State and 4.3 million individuals with either a valid driver's license or identification card. Assuming that 10% of vehicle owners purchase a hands-free device for each vehicle registered, and the average price of each device is \$50, general fund revenues could decrease by approximately \$1.4 million annually in fiscal 2019 through 2021. This estimate is based on national market sales data and the average price for wireless headsets adjusted for the State's population.

The Comptroller's Office will incur a one-time expenditure increase of \$81,300 in fiscal 2019 to notify the approximately 130,000 sales and use tax account holders of the sales tax change.

## **Additional Information**

**Prior Introductions:** HB 1242 of 2017 and HB 1321 of 2016 each received a hearing in the House Ways and Means Committee, but no further action was taken on either bill.

**Cross File:** None.

**Information Source(s):** Comptroller's Office; Motor Vehicle Administration; Department of Legislative Services

**Fiscal Note History:** First Reader - February 21, 2018  
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