

Department of Legislative Services  
 Maryland General Assembly  
 2023 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 1094  
 Ways and Means

(Delegate Munoz, *et al.*)

Sales and Use Tax - Rate Reduction

This bill reduces the State sales and use tax rate from 6% to 5% for taxable goods and services. **The bill takes effect July 1, 2023.**

Fiscal Summary

**State Effect:** General fund revenues decrease by \$943.7 million and special fund revenues decrease by \$116.6 million in FY 2024, based on the current sales and use tax revenue forecast. Future year revenue decreases reflect the sales and use tax revenue forecast. General fund expenditures increase by \$93,300 in FY 2024.

(\$ in millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GF Revenue	(\$943.7)	(\$965.6)	(\$990.4)	(\$1,011.2)	(\$1,039.4)
SF Revenue	(\$116.6)	(\$123.0)	(\$131.2)	(\$139.2)	(\$143.1)
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$1,060.4)	(\$1,088.6)	(\$1,121.7)	(\$1,150.4)	(\$1,182.5)

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

**Local Effect:** None.

**Small Business Effect:** Potential meaningful.

Analysis

**Current Law:** The State sales and use tax rate is 6%, except for the sale of alcoholic beverages, which are taxed at a rate of 9%. The sales and use tax is the State’s second largest source of general fund revenue, accounting for approximately \$6.2 billion in

fiscal 2023 and 2024, according to the December 2022 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	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
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, and Patrick counties; and (3) 1.7% is imposed in localities in the Historic Triangle. The sales and use tax rate for food and personal hygiene products decreased to 1.0% as of January 1, 2023.

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*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 Blueprint for Maryland's Future Fund (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 Revenues:** Reducing the general sales and use tax rate from 6% to 5% will reduce total sales and use tax revenues by \$1.1 billion in fiscal 2024 and by \$1.2 billion in fiscal 2028. The estimate is based on (1) the current sales and use tax revenue forecast and (2) a 0.94% increase in general taxable sales resulting from the sales and use tax rate reduction.

As noted, Chapter 33 altered the distribution of sales and use tax revenues beginning in fiscal 2023. Therefore, any decrease in State sales and use tax revenues will also reduce BMFF revenues. Based on the estimate above, general fund revenues decrease by \$943.7 million, and BMFF revenues decrease by \$116.6 million in fiscal 2024, and by \$1.0 billion and \$143.1 million, respectively in fiscal 2028.

**State Expenditures:** The Comptroller's Office will incur expenditure increases in fiscal 2024 of (1) \$81,300 to notify the approximately 130,000 sales and use tax account holders of the sales and use tax rate change and (2) \$12,000 to program the new tax rate in the processing system.

**Small Business Effect:** Retailers in Maryland could benefit from an increase in sales resulting from a decrease in the sales and use tax rate. As a point of reference, a 0.94% increase in general taxable sales would result in approximately \$9,400 in recouped sales for a business with \$1 million in gross sales after the rate is reduced to 5%. However, the actual impact would vary by business.

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### **Additional Information**

**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

**Fiscal Note History:** First Reader - February 28, 2023  
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Analysis by: Michael Sanelli

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510