

Department of Legislative Services
 Maryland General Assembly
 2024 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

Senate Bill 784

(Senator Elfreth, *et al.*)

Budget and Taxation

Ways and Means

Comprehensive Community Safety Funding Act

This bill increases, from 6% to 11%, the State sales and use tax imposed on the sale of firearms, firearm accessories, and ammunition in the State. The bill requires specified distributions of the revenue from the increased sales and use tax. **The bill takes effect July 1, 2025.**

Fiscal Summary

State Effect: Special fund revenues increase by approximately \$10.2 million in FY 2026 and by \$11.4 million in FY 2029. General fund expenditures for administrative costs at the Comptroller’s Office increase by \$71,200 in FY 2026 and by \$73,700 in FY 2029. Future year expenditures reflect inflation.

(\$ in millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
SF Revenue	\$0	\$10.2	\$10.5	\$11.0	\$11.4
GF Expenditure	\$0	\$0.1	\$0.1	\$0.1	\$0.1
Net Effect	\$0.0	\$10.1	\$10.5	\$10.9	\$11.3

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

Local Effect: None.

Small Business Effect: Potential meaningful. Retailers in Maryland could realize a decrease in sales resulting from an increase in the sales and use tax rate.

Analysis

Bill Summary: The bill establishes an 11% sales and use tax on the sale of firearms, firearm accessories, and ammunition in the State and specifies the distribution of revenue

from the sales and use tax collected in excess of 6%. An exemption from the sales and use tax on firearm accessories and ammunition is provided to law enforcement officers (active or retired) and military personnel if the purchase is related to the individual's role as a law enforcement officer or military personnel or training by a retired law enforcement officer.

Revenue from the sales and use tax in excess of 6% must be distributed as follows:

- 44% to the Maryland Trauma Physician Services Fund;
- 29% to the R Adams Cowley Shock Trauma Center at the University of Maryland Medical System;
- 23% to the Violence Intervention and Prevention Program Fund;
- 2% to the Survivors of Homicide Victims Grant Program within the Governor's Office of Crime Prevention and Policy; and
- 2% to the Center for Firearm Violence Prevention and Intervention within the Maryland Department of Health.

The bill specifies that it is the intent of the General Assembly that the additional sales and use tax revenue supplement, and not supplant, any other funding for these funds required by law.

A firearm accessory is defined as (1) a magazine or magazine loader; (2) a firearm scope or optic; (3) a stock; (4) a grip; (5) a handguard; or (6) body armor.

Current Law: The federal government imposes an excise tax on firearms and ammunition (FAET) at a rate of 10% on the sales price of pistols and revolvers, and 11% on the sales price of other portable weapons (*e.g.*, rifles and shotguns) and ammunition. Federal law is enforced by the Alcohol and Tobacco Tax and Trade Bureau (TTB) of the U.S. Department of Treasury. The Maryland 6% State sales and use tax applies to the sale of firearms, ammunition, and firearm accessories. There are 787 federal firearm licensees in Maryland.

State Sales and Use Tax

The State sales and use tax rate is 6%, except for the sale of alcoholic beverages and cannabis products, 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 \$5.9 billion in fiscal 2024 and \$6.1 billion in fiscal 2025, according to the December 2023 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; and 18% for motor vehicle parking in commercial lots
Maryland	6.0% 9.0% for alcoholic beverages and cannabis products
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 the 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: The bill imposes an 11% sales and use tax on the sale of firearms, firearm accessories, and ammunition in the State, which is a 5 percentage point increase over current law. As a result, special fund revenues increase by approximately \$10.2 million in fiscal 2026 and by \$11.4 million in fiscal 2029. The estimate is based on the following:

- for the period of July 1, 2022, through June 30, 2023 (Maryland fiscal 2023), TTB collected \$993.4 million in FAET revenues nationally;
- Maryland represents approximately 1.9% of the U.S. population; and,
- firearm sales increase by approximately 3.8% annually beginning in fiscal 2027.

To the extent that actual sales of firearms, ammunition, and firearm accessories in Maryland are different from the estimate (as a percent of the U.S. population), the amount of the revenue increase will vary accordingly.

The bill requires that the revenue derived from the sales and use tax in excess of 6% be distributed to several special funds and programs, as noted above. **Exhibit 2** shows the distribution of sales and use tax revenue for fiscal 2026 and 2029.

Exhibit 2
Revenue Distribution from Additional 5% Sales and Use Tax
(\$ in Millions)

	<u>FY 2026</u>	<u>FY 2029</u>
Sales and Use Tax Revenues	\$10.2	\$11.4
Maryland Trauma Physician Services Fund	4.5	5.0
R Adams Cowley Shock Trauma Center	2.9	3.3
Violence Intervention and Prevention Program Fund	2.3	2.6
Survivors of Homicide Victims Grant Program	0.2	0.2
Center for Firearm Violence Prevention and Intervention	0.2	0.2

Source: Department of Legislative Services

State Expenditures: The Comptroller’s Office advises that adding an additional sales and use tax type to be collected and administered by the agency will require one additional

revenue examiner to manage the collection and distribution of revenues to the required special funds and programs. As a result, general fund expenditures increase by approximately \$71,200 in fiscal 2026 and by \$73,700 in fiscal 2029. The estimate reflects the bill's July 1, 2025 effective date and assumes no start-up delay. The estimate includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Regular Position	1
Salary and Fringe Benefits	\$63,622
Other Operating Expenses	<u>7,537</u>
Total FY 2026 State Expenditures	\$71,159

Additional Information

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

Designated Cross File: HB 935 (Delegate Mireku-North, *et al.*) - Ways and Means.

Information Source(s): Comptroller's Office; Department of State Police; Federal Alcohol and Tobacco Tax and Trade Bureau; Department of Legislative Services

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