

Business tax tip #8

Computing Maryland's Sales and Use Tax

The Maryland sales and use tax rate is **6%** on all taxable sales. The 6% sales and use tax is imposed on 60% of the price of new modular buildings or new mobile homes. There are no general local sales taxes in Maryland.

The Maryland tax on alcoholic beverages is **9%** of the charged for the alcoholic beverage.

Short-term passenger car and recreational vehicle rental sales have a tax rate of 11½%, and truck rentals are subject to the 8% tax rate.

How is the 6% sales and use tax calculated?

The tax is:

- 1 cent on each sale where the taxable price is 20¢;
- 2¢ if the taxable price is at least 21¢ but less than 34¢;
- 3¢ if the taxable price is at least 34¢ but less than 51¢;
- 4¢ if the taxable price is at least 51¢ but less than 67¢;
- 5¢ if the taxable price is at least 67¢ but less than 84¢;
- And 6¢ if the taxable price is at least 84¢.

On each sale where the taxable price exceeds \$1.00:

- 6¢ on each exact dollar, plus 1 cent if the excess over an exact dollar is at least 1 cent but less than 17¢;
- 2¢ if the excess over an exact dollar is at least 17¢ but less than 34¢;
- 3¢ if the excess over an exact dollar is at least 34¢ but less than 51¢;
- 4¢ if the excess over an exact dollar is at least 51¢ but less than 67¢;
- 5¢ if the excess over an exact dollar is at least 67¢ but less than 84¢;
- And 6¢ if the excess over an exact dollar is at least 84¢.

Rate charts should be used when making a sale. You can download a rate chart for [sales and use tax](#) and [alcohol tax](#) or obtain one by contacting Taxpayer Service at 410-260-7980 or 1-800-638-2937.

How is the tax on Vehicle Rentals calculated?

Car and motorcycle rentals – The tax for a car and motorcycle rental at a taxable price of \$2 or more is 23¢ for each exact multiple of \$2;

- And for that part of \$2 in excess of an exact multiple of \$2, 1 cent if the excess over an exact multiple of \$2 is at least 1 cent but less than 9¢;
- 2¢ if the excess over an exact multiple of \$2 is at least 9¢ but less than 18¢;
- 3¢ if the excess over an exact multiple of \$2 is at least 18¢ but less than 27¢;
- 4¢ if the excess over an exact multiple of \$2 is at least 27¢ but less than 35¢;
- 5¢ if the excess over an exact multiple of \$2 is at least 35¢ but less than 44¢;
- 6¢ if the excess over an exact multiple of \$2 is at least 44¢ but less than 53¢;
- 7¢ if the excess over an exact multiple of \$2 is at least 53¢ but less than 61¢;

- 8¢ if the excess over an exact multiple of \$2 is at least 61¢ but less than 70¢;
- 9¢ if the excess over an exact multiple of \$2 is at least 70¢ but less than 79¢;
- 10¢ if the excess over an exact multiple of \$2 is at least 79¢ but less than 87¢;
- 11¢ if the excess over an exact multiple of \$2 is at least 87¢ but less than 96¢;
- 12¢ if the excess over an exact multiple of \$2 is at least 96¢ but less than \$ 1.05;
- 13¢ if the excess over an exact multiple of \$2 is at least \$ 1.05 but less than \$ 1.14;
- 14¢ if the excess over an exact multiple of \$2 is at least \$ 1.14 but less than \$ 1.22;
- 15¢ if the excess over an exact multiple of \$2 is at least \$ 1.22 but less than \$ 1.31;
- 16¢ if the excess over an exact multiple of \$2 is at least \$ 1.31 but less than \$ 1.40;
- 17¢ if the excess over an exact multiple of \$2 is at least \$ 1.40 but less than \$ 1.48;
- 18¢ if the excess over an exact multiple of \$2 is at least \$ 1.48 but less than \$ 1.57;
- 19¢ if the excess over an exact multiple of \$2 is at least \$ 1.57 but less than \$ 1.66;
- 20¢ if the excess over an exact multiple of \$2 is at least \$ 1.66 but less than \$ 1.74;
- 21¢ if the excess over an exact multiple of \$2 is at least \$ 1.74 but less than \$ 1.83;
- 22¢ if the excess over an exact multiple of \$2 is at least \$ 1.83 but less than \$ 1.92;
- And 23¢ if the excess over an exact multiple of \$2 is at least \$ 1.92 but less than \$2.00.

Truck rentals – The tax for a truck rental is 8¢ for each exact dollar; and 2¢ for each 25¢ or part of 25¢ in excess of an exact dollar.

May vendors keep the "breakage"?

No. Vendors are required to report all amounts they collected or should have collected. Because of the requirement to round up, the amount remitted will almost always be more than a flat percentage of taxable sales.

Are there any minimum taxable levels?

Yes. The tax does not apply to sales of less than 20¢.

May I make sales on a tax-included basis?

No. Maryland law requires vendors to state the tax separately.

How are vending machine sales treated?

If you make sales of tangible personal property through vending machines which would have been taxable if sold over-the-counter, sales tax is due on the gross receipts from those sales. Vendors should multiply their gross receipts by 94.50% before applying the 6% rate.

What about bulk vending machines?

Bulk vending machines, which contain unsorted merchandise and dispense merchandise in approximately equal portions at random without selection by the customer when a coin is inserted, are an exception. Merchandise sold through a bulk vending machine for a taxable price of 75¢ or less is exempt from the sales tax.

What is included in the taxable price?

The tax is imposed on the entire price whether paid in the form of money, promises, barter or anything else of value. It includes the amount of liabilities assumed by the buyer, the value of services performed for the vendor and, except for federal food stamps, the face value of any coupon for which the vendor can get reimbursement from another source. The taxable price is not reduced for any expense or cost for labor or service rendered, material used or any property sold except as explained below.

What about trade-ins?

The tax is computed on the basis of anything of value transferred in a sale. For this reason, the value of trade-ins may not be deducted before computing the tax.

Are store coupons included in the taxable price?

No. A store coupon is not included in the taxable price unless the vendor can get reimbursement from another source. Manufacturers' coupons, for which a store can get reimbursement, are included in the taxable price, however.

Are warranty charges taxable?

Warranty, maintenance, service agreement and insurance charges in connection with taxable sales are also taxable if the vendor requires them to be purchased or they are automatically included in the price of the merchandise. However, if the sale could be completed without paying these charges, they are not taxable.

What other components of a sale are taxable?

The tax applies to all services necessary to complete a sale, such as assembly, fabrication, alteration, lubrication, engraving, monogramming, cleaning, customization and dealer preparation. The taxable price is not reduced by prompt payment discounts, manufacturers' rebates, commissions or "core charges," or deposits to insure a trade-in, even if refunded. The taxable price includes small order, split billing and slow-moving charges.

The tax does not apply to core charges made in connection with sales of the following re-manufactured truck parts and their components: air brake systems, engines, rear axle carriers and transmissions.

Can nonprofit groups eliminate or reduce the tax by describing all or part of their prices as "donations"?

No. If the donation must be paid to obtain the property, it is part of the taxable price. See [Tip #6 - Retail Sales Involving Exemption Certificates](#) for more information.

May I deduct any charges from the price before computing the sales and use tax?

Yes. You may deduct separately stated charges for installation, professional services, interest payments and delivery services. In addition, the tax does not apply to consumer excise taxes, deposits, cash discounts and mandatory gratuity charges on food and beverage sales for groups of ten or fewer.

For all short-term rental agreements for passenger cars, Class M vehicles, and E, F, or G trucks, the taxable price includes all sales and charges made in connection with the short-term vehicle rental, including insurance, freight handling, equipment and supplies, delivery and pickup, cellular telephone, and other accessories, but not including sales of motor fuel subject to the motor fuel tax.

How do the deductible charges apply?

To deduct these charges before computing the sales and use tax, the vendor must clearly identify the charges separately from any other items by documentary evidence in existence, and made known to the buyer, at the time of the sale. If these charges are included in a lump-sum price with no separate statement, the tax must be collected on the entire amount of the sale.

May I deduct all kinds of delivery charges?

No. To deduct a delivery charge from the taxable price, it must be a charge for delivering goods directly to the buyer. Charges for delivering goods to the seller or between various locations of the seller are not deductible. This is why the tax must be collected on "delivery charges" on goods picked up at catalog stores.

Are "shipping and handling" charges deductible?

No. While a separately stated shipping charge would be deductible, the deduction is lost if it is combined with handling charges.

How is the tax applied to sales of cigarettes?

The sales and use tax is applied to the full price of the cigarettes without any deduction for tobacco taxes which may have been paid on the cigarettes.

Are there any limitations on the interest deduction?

Yes. For an interest charge to be deductible, it must be for credit extended to the buyer. Interest paid by the seller and re-billed to the buyer does not qualify. No part of a timely lease or rental payment may be treated as a deductible interest charge.

How are restocking charges handled?

If a sale is cancelled and goods are returned to the seller for a credit or refund, the proportionate amount of the tax collected must also be refunded. If a vendor withholds a portion of the price as a restocking charge or for any other reason, no refund of the tax on the portion withheld is permitted.

What about lease payments on personal property?

The tax rate due on applicable lease payments for tangible personal property is based on the lease payment period, regardless of the length of the lease or the date that the lease agreement was signed. Each lease payment period is considered to be a separate lease for sales and use tax purposes. Payments for lease periods due after January 3, 2008 will be subject to tax at the 6% rate.

Is the tax on out-of-state purchases computed the same way as the tax on sales inside Maryland?

Basically, yes. Maryland does, however, grant a credit for the sales tax paid to another state up to the amount of the Maryland tax. In addition, a 10% depreciation allowance may be taken for each full year the property is used by the purchaser before being brought to Maryland. See [Tip#3 - Sales and Use Tax on Out-of-State Purchases](#) for more information.

How is the tax computed on repair transactions?

The tax applies to separately stated material charges in repair transactions. Lump-sum repair charges are exempt, but lump-sum repairers are required to pay the tax on all of their purchases. See [Tip #7 - Are Repairs to Personal Property Taxable?](#) for more information.

File Electronically

If you have no sales and use tax due for a required filing period, you can telefile your return by calling our automated line at 410-260-7225. If you owe tax, we encourage you to file electronically using our [free bFile service](#). Before using bFile, please make sure your financial institution accepts debit transactions.