

Department of Legislative Services
 Maryland General Assembly
 2001 Session

FISCAL NOTE
Revised

Senate Bill 14 (Senator Hoffman)

Budget and Taxation

Ways and Means

Sales and Use Tax - Exemptions - Energy for Residential Condominiums

This bill exempts from the sales and use tax sales of electricity, steam, or artificial or natural gas for use in residential condominiums.

The bill takes effect July 1, 2001.

Fiscal Summary

State Effect: General fund revenues would decrease by \$393,300 in FY 2002 due to elimination of the sales tax on base rate utility charges for residential condominium common areas and centrally metered condominium units, increasing 5% per year based on inflation.

(in dollars)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
GF Revenue	(\$393,300)	(\$413,000)	(\$433,600)	(\$455,300)	(\$478,100)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$393,300)	(\$413,000)	(\$433,600)	(\$455,300)	(\$478,100)

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: The sales and use tax rate of 5% generally applies to the sale of electricity and natural gas; however, the sales and use tax does not apply to the sale of

electricity, steam, or artificial or natural gas that is delivered under a residential or domestic rate schedule on file with the Public Service Commission. The sales and use tax also does not apply to a fuel rate adjustment charge equal to the amount of the sale above the base rate that the Public Service Commission approves for electricity, steam, and artificial or natural gas used in residential condominiums.

Background: Prior to utility restructuring, utility companies charged customers for the sale of electricity or gas by way of: (1) a base rate; and (2) a fuel rate adjustment charge (fuel charge). The base rate covers the utility's distribution costs, and in the case of electricity, may include some of the utility's generation costs as well. The base rate is not subject to the sales tax for residential customers.

The adjustment charge reflects the cost of the energy commodity, particularly in the case of gas. Under the adjustment charge, the utility could pass on the cost of market increases in fuel costs. Commercial customers were subject to the sales tax on the fuel charge, while residential customers were exempt.

Centrally metered residential condominiums were subject to the sales tax as it applied to the base rate, but were exempt from the sales tax on the sale of the fuel charges. This exemption was relatively insignificant for electricity, because most of electricity costs were reflected in the base rate. The exemption was more significant for gas, where the adjustment charges tended to be larger. Condominium units that were individually metered received the residential exemption for both the base rate and the fuel charge, but the condominium building would still be subject to the sales tax on the base rate purchases for the building's common spaces.

With restructuring, the fuel rate adjustment charge has been made technically moot because energy producers can set their own prices. BGE advises, however, that it is not collecting sales tax on any commodity charges -- which are the current equivalent of the fuel charges -- under the condominium exemption. Residential condominiums remain subject to the sales tax for their base rates for their common areas and centrally metered units.

State Revenues: BGE advises that it collects sales tax on the electricity base rate from 1,528 condominium customers, including service for the common areas and any centrally metered units. The taxable amount collected is \$3.4 million (or an average annual taxable electric bill of \$2,209). BGE further advises that it collects sales tax on the gas base rate from 276 condominium customers, also including service for the common areas and any centrally metered units. This taxable amount is \$557,800 (or an average annual taxable gas bill of \$2,021). Assuming that buildings use either gas or electricity for heating, the total taxable bill is \$3.9 million, with tax collections equal to \$196,657. BGE

accounts for approximately 50% of the electricity and gas distribution in the State. The total reduction in tax collections is therefore estimated at \$393,300, increasing by 5% per year thereafter based on the assumed growth in energy base rate charges.

Additional Information

Prior Introductions: None.

Cross File: HB 98 (Delegate Doory) - Ways and Means.

Information Source(s): Comptroller's Office, Department of Assessments and Taxation, Public Service Commission, Baltimore Gas & Electric, Department of Legislative Services

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