

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

House Bill 415
Ways and Means

(Delegate Cardin, *et al.*)

Sales and Use Tax - Ammunition and Firearms - Developmental Disabilities
Funding

This bill requires the Comptroller to distribute the sales and use tax revenues from the sale of ammunition and firearms to the Waiting List Equity Fund (WLEF) rather than the general fund.

The bill does not affect provisions of the Transportation Infrastructure Investment Act of 2013 (Chapter 429) that direct a portion of sales and use tax revenues to the Transportation Trust Fund if the U.S. Congress authorizes the State to collect sales and use taxes on Internet sales by December 1, 2015.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: General fund revenues decrease by a significant amount beginning in FY 2015 and special fund revenues increase by a significant amount beginning in FY 2015. Under one set of assumptions, general fund revenues decrease by \$4.9 million and special fund revenues increase by a commensurate amount annually. General fund expenditures increase by \$212,600 in FY 2015 for computer programming and notification costs at the Comptroller's Office.

Local Effect: None.

Small Business Effect: Minimal.

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 \$4.2 billion in fiscal 2014 and \$4.4 billion in fiscal 2015, according to the December 2013 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%
District of Columbia	5.75%
Maryland	6% 9% for alcoholic beverages
Pennsylvania	6% plus 1% or 2% in certain local jurisdictions
Virginia *	5.3%; 2.5% for food, both rates include 1% for local jurisdictions
West Virginia	6%; 1% for food

*An additional State tax of 0.7% is imposed on sales in localities in Northern Virginia and the Hampton Roads region.

Background: A developmental disability is a condition attributable to a mental or physical impairment that results in substantial functional limitations in major life activities and which is likely to continue indefinitely. Examples include autism, blindness, cerebral palsy, deafness, epilepsy, intellectual disability, and multiple sclerosis. The Developmental Disabilities Administration (DDA) provides direct services to these individuals in three State residential centers and through funding of a coordinated service delivery system that supports the integration of these individuals into the community. Because the majority of the individuals served are Medicaid-eligible, the State receives federal matching funds for services provided to Medicaid enrolled individuals.

WLEF was established to ensure that funding associated with serving individuals in a State residential center follows them to the community when they are transitioned to a community-based care setting and that any funds remaining be used to provide

community-based services to individuals on the waiting list. WLEF funds may not be used to supplant funds for emergency placements or transitioning youth.

In the 2011 session, the legislature appropriated an additional \$15 million to DDA for fiscal 2012 based on its concern over the lack of services available to meet the demand from individuals with developmental disabilities. Funding was provided through Chapter 571 of 2011, which increased the State sales and use tax rate imposed on alcoholic beverages from 6% to 9% and required a supplementary appropriation of \$15 million for DDA to fund services to individuals on DDA's waiting list. Specifically, funding had to be used to assist individuals in the Crisis Resolution and Crisis Prevention categories of the waiting list. The \$15 million supplementary appropriation was also partially matched by federal funds based on the number of individuals served in the Crisis Resolution category.

Ultimately, in fiscal 2012, DDA spent an additional \$18.0 million in general funds and \$5.0 million in matching federal funds to serve those on the waiting list, exceeding its \$15.0 million general fund appropriation by \$3.0 million. DDA used \$12.1 million to place individuals in the Crisis Resolution category into ongoing services, doubling the number of placements over fiscal 2011. All individuals in the Crisis Prevention category of the waiting list were eligible for up to \$10,000 in one-time assistance for Services of Short Duration (SSD). DDA used \$10.9 million to provide SSD to 1,172 individuals in the Crisis Prevention category.

DDA was able to increase placements due to the implementation of an expedited process of initiating services. This new process streamlined the initial assessment of needs, the individual plan development, and the funding process. DDA also implemented new procedures to review challenging cases at the department level and coordinated additional supports through various service delivery systems, such as mental health services, to meet unique needs.

The proposed fiscal 2015 State budget includes a \$938.2 million for contractual community services within the Developmental Disabilities Administration. It also includes \$351,796 for WLEF.

State Revenues: General fund revenues decrease and special fund revenues increase by a significant amount beginning in fiscal 2015 due to the redirection of existing sales tax revenues from ammunition and firearms sales to the Waiting List Equity Fund. However, the magnitude of these revenue changes cannot be reliably estimated, as there is currently no accurate way to track or estimate the amount and cost of ammunition sold and the cost of firearms sold in the State each year.

The Department of State Police (DSP) tracks the number of regulated firearms transfers that occur in the State each year. The department reports that there were 36,762 transfers in calendar 2010; 39,681 transfers in 2011; 53,444 transfers in 2012; and 103,659 transfers in 2013. DSP do not, however, collect data on the prices of firearms being transferred. An Internet search indicates that there are numerous firearm manufacturers and many types of firearms available for sale. Prices for firearms vary greatly among the different types of firearms, as well as within the same category, depending on the manufacturer. As such, there is no reliable data as to the amount of sales taxes that may be generated from the sale of firearms in the State.

According to a survey by the U.S. Fish and Wildlife Service, Americans spent \$7.7 billion on hunting equipment in 2011, including \$3.1 billion on firearms and \$1.3 billion on ammunition. If it is assumed that Maryland residents purchased hunting equipment, including ammunition and firearms proportionate to the nation as a whole, Maryland residents spent approximately \$57.2 million on firearms and \$24.3 million on ammunition for hunting-related activities in 2011.

For illustrative purposes only, if it is assumed that Maryland residents spend approximately \$81.5 million annually on firearms and ammunition for hunting related activities, distributing sales tax revenue to the WLEF would decrease general fund revenues by approximately \$4.9 million and increase special fund revenues for WLEF by the same amount annually. However, it is important to note that these estimates do not include any nonhunting-related ammunition sales. As a result, this example likely understates the potential revenue impacts of the bill.

State Expenditures: The Comptroller's Office will incur a variety of one-time expenditures to administer the sales tax changes, including form changes, notification costs relating to mailing and postage, and computer programming modifications. As a result, general fund expenditures increase by \$212,600 in fiscal 2015. The estimate includes \$153,100 in computer programming changes and \$59,500 in notification costs.

Additional Information

Prior Introductions: HB 1277 of 2013, a similar bill, received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: None.

Information Source(s): Department of Health and Mental Hygiene, Comptroller's Office, U.S. Fish and Wildlife Service, Department of State Police, Department of Legislative Services

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