

**Department of Legislative Services**  
Maryland General Assembly  
2014 Session

**FISCAL AND POLICY NOTE**

Senate Bill 9

(Senator Astle)

Budget and Taxation

Ways and Means

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**Sales and Use Tax - Exemption - Veterans Organizations That Sell Marine Corps Uniforms**

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This bill exempts sales made by a veterans organization that (1) is qualified as tax exempt under Section 501(c)(19) of the Internal Revenue Code and (2) sells Marine Corps uniforms that have been approved and certified by the United States Marine Corps Systems Command from the State sales and use tax.

The bill takes effect June 1, 2014, and applies retroactively to all sales made on or after July 1, 2010.

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**Fiscal Summary**

**State Effect:** General fund revenues decrease by at least \$94,000 in FY 2015, which includes four years of retroactive sales, and by at least \$33,100 in FY 2019. Expenditures are not affected.

(in dollars)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GF Revenue	(\$94,000)	(\$24,900)	(\$27,300)	(\$30,100)	(\$33,100)
Expenditure	0	0	0	0	0
Net Effect	(\$94,000)	(\$24,900)	(\$27,300)	(\$30,100)	(\$33,100)

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

**Local Effect:** None.

**Small Business Effect:** None.

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## Analysis

**Current Law:** The State sales and use tax does not apply to sales made by the following organizations:

- a bona fide religious organization, if the sale is made for the general purposes of the organization;
- a gift shop at a mental hospital operated by the Department of Health and Mental Hygiene;
- a hospital thrift shop operated by volunteers;
- specified vending facilities operated under the Maryland Vending Program for the Blind;
- an elementary or secondary school or a nonprofit parent-teacher organization for the sale of magazine subscriptions in a fundraising campaign; and
- a parent-teacher organization or other organization within an elementary or secondary school in the State or within a local school system in the State.

Sales made to certain organizations are also exempt from the State sales and use tax, including sales made to:

- tax-exempt cemetery companies;
- credit unions;
- nonprofit organizations;
- nonprofit senior citizens' organizations if the sale does not exceed \$500;
- a volunteer fire or ambulance company or rescue squad;
- a nonprofit parent-teacher association;
- a nonprofit organization qualified as tax exempt under Section 501(c)(4) of the Internal Revenue Code for the purpose of mitigating spills of oil or other substances occurring in U.S. coastal and tidal waters; and
- a veterans organization or an auxiliary of the organization or its units, if the organization is qualified as tax exempt under Section 501 (c)(4) of the Internal Revenue Code.

To qualify as a tax-exempt organization, the organization must file an application for an exemption certificate with the Comptroller. The Comptroller may treat the possession of an effective determination letter of status from the Internal Revenue Service as evidence that an organization qualifies for the exemption.

**Background:** 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.

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**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 localities in Northern Virginia and the Hampton Roads region.

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According to the Marine Corps Association and Foundation, there are only two entities that are authorized to sell approved and certified Marine Corps uniforms – the Marine Shop, located in Quantico, Virginia (owned and operated by the Marine Corps Association and Foundation) and the Marine Corps Exchange (MCX). The Marine Corps Association and Foundation is a nonprofit veterans organization under Section 501(c)(19) of the Internal Revenue Code.

The Marine Corps Association and Foundation reports that the Marine Shop sells a sizable number of uniforms to newly commissioned officers at the United States Naval Academy in Annapolis. These sales are typically made onsite in Annapolis, which creates nexus in the State and, thus, requires the collection of State sales and use taxes. It is estimated that a full set of Marine uniforms costs approximately \$3,000.

While the MCX is located at all marine and naval bases, it is a governmental entity and, therefore, does not have to impose and collect state and local sales taxes.

**State Fiscal Effect:** General fund revenues will decrease by at least \$94,000, which includes four years of retroactive sales tax exemptions, in fiscal 2015 and by at least \$33,100 in fiscal 2019. The estimate is based on the following facts and assumptions:

- during calendar 2012, Marine Shop gross uniform sales to Naval Academy midshipmen totaled approximately \$283,000;
- the Marine Shop's market share of uniform sales to newly commissioned midshipmen increased from 33% in 2007 to 60% in 2013, which represents a 10.5% annual increase;
- future year sales will increase by 10% annually; and
- the State sales and use tax rate is 6%.

In addition, the Marine Shop also has a website that sells books, clothing, and souvenir type items. Due to the nexus established by the onsite sales of uniforms to Naval Academy personnel, all sales made to Maryland residents by the Marine Shop, including Internet sales, are also subject to the State sales and use tax.

Data as to the amount of Internet sales made by the Marine Shop to Maryland residents is not readily available, but the overall annual revenue effect on general fund revenues will be greater than the amount of uniform sales being exempted.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Department of Veterans Affairs, Department of Legislative Services

**Fiscal Note History:** First Reader - January 20, 2014  
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