Department of Legislative Services

Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 904 (Senator Young, *et al.*)
Budget and Taxation

Sales and Use Tax - Diapers - Exemption

This bill exempts the sale of diapers from the State sales and use tax.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: General fund revenues decrease by a significant amount beginning in FY 2017. The amount of the decrease depends on the amount of diapers purchased each year and the cost of diapers purchased. Under one set of assumptions, general fund revenues decrease by approximately $11.8 million in FY 2017. General fund expenditures for administrative costs in the Comptroller's Office increase by $81,300 in FY 2017.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The sale of baby diapers is subject to the State sales and use tax. The sale of baby oil, baby powder, sanitary napkins, or tampons is exempt from the State sales and use tax. In addition, the sales and use tax does not apply to the sale of disposable medical supplies. Disposable medical supplies are articles consumed in a single use to cure, mitigate, treat, prevent, or diagnose illnesses. Exempt items include incontinent pants, diapers, and other incontinent supplies for adults; adhesive tape; bandages; gauze and gauze pads; antiseptics; disposable gloves; lubricating jelly; colostomy supplies; absorbent pads; dressing supplies; spray bandages; disposable syringes; condoms; and glucose monitoring strips.

Background: The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately $4.5 billion in fiscal 2016 and $4.7 billion in fiscal 2017, according to the December 2015 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%; 10% for liquor sold for off-the-premises consumption and restaurant meals, liquor for consumption on the premises, and rental vehicles
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% plus 0.5% or 1% in certain municipalities

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

State Fiscal Effect: General fund revenues decrease by a significant amount beginning in fiscal 2017. There are two factors that will determine the actual revenue decrease resulting from this proposed sales and use tax exemption. The first factor is the price of diapers. An Internet search indicates that diaper prices can vary from $0.20 per diaper to nearly $0.50 per diaper, depending on the brand and the quantity purchased. The second factor is the number of diapers used per child per day. It is assumed that infants and babies will require more diapers than toddlers and older children.

As a point of reference, and *for illustrative purposes only*, general fund revenues could decrease by approximately $11.8 million in fiscal 2017, based on the following:

- the U.S. Census Bureau projected approximately 295,700 children age three and younger in Maryland as of July 1, 2014;
- the average diaper costs $0.28; and
- families use an average of seven diapers per child per day.

Future year revenue decreases would grow by 2% annually. The Comptroller's Office would incur a one-time expenditure increase of $81,300 in fiscal 2017 to notify the approximately 130,000 sales and use tax account holders of the sales tax change.

Additional Information

Prior Introductions: None.

Cross File: HB 1510 (Delegate Lisanti) **-** Rules and Executive Nominations. In addition, HB 784 and HB 807 are similar bills.

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

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