

Department of Legislative Services
Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 567 (Senator Washington)
Budget and Taxation

Sales and Use Tax - Exemption - Out-of-State Nonprofit Organizations

This bill provides an exemption from the State sales and use tax for a sale to a nonprofit organization that is located outside the State if the sale is made in connection with and solely for use at a conference or convention that is (1) held in the State by the nonprofit organization; (2) related to the mission or work of the nonprofit organization; and (3) attended by at least 25 individuals. A nonprofit organization must file an application for an exemption certificate with the Comptroller in order to qualify for the exemption. **The bill takes effect July 1, 2020.**

Fiscal Summary

State Effect: General fund revenues decrease beginning in FY 2021. The amount of the revenue decrease depends on the taxable value and amount of sales made to out-of-state nonprofit organizations each year. General fund expenditures increase by \$81,300 in FY 2021.

Local Effect: None.

Small Business Effect: Minimal

Analysis

Current Law: Sales made to certain organizations are 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 bona fide nationally organized and recognized tax-exempt veterans organization or auxiliary.

The State sales and use tax does not apply to sales made by a bona fide religious organization, if the sale is made for the general purposes of the organization. In addition, sales made by the following organizations are also exempt from the State sales and use tax, including:

- a gift shop at a mental hospital operated by the Department of Health;
- 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 school system in the State.

The sales tax also does not apply to a sale of food if the proceeds are used to support a bona fide nationally organized and recognized veterans' organization or auxiliary.

Background: The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$5.0 billion in fiscal 2020 and 2021, according to the December 2019 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	0.0%
District of Columbia	6.0%; 10.0% for liquor sold for on the premises consumption and restaurant meals; 10.25% for alcoholic beverages for consumption off the premises, tickets to specified sporting events, and specified rental vehicles; and 8.0% for specified soft drinks
Maryland	6.0% 9.0% for alcoholic beverages
Pennsylvania	6.0% plus 1.0% or 2.0% in certain local jurisdictions
Virginia*	5.3%; 2.5% for eligible food items; 2.5% for specified essential personal hygiene items; both rates include 1.0% for local jurisdictions
West Virginia	6.0% plus 0.5% (in one municipality) or 1.0% (in 45 municipalities)

*An additional state tax of 0.7% is imposed in localities in Northern Virginia and the Hampton Roads region, and an additional 1.7% is imposed in localities in the Historic Triangle.

State Revenues: General fund revenues decrease beginning in fiscal 2021; however, the amount of the revenue decrease cannot be reliably estimated and depends on the taxable value and amount of sales made to out-of-state nonprofit organizations each year. As a point of reference, for each \$1.0 million in exempt purchases that are made each year, general fund revenues decrease by \$60,000.

State Expenditures: The Comptroller's Office will incur a one-time expenditure increase of \$81,300 in fiscal 2021 to notify the approximately 130,000 sales and use tax account holders of the sales tax change.

Additional Information

Prior Introductions: None.

Designated Cross File: HB 730 (Delegate D. Barnes, *et al.*) - Ways and Means.

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

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mr/hlb

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