HB 580

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 580 (Delegates Campbell and Healey)
Ways and Means

Sales and Use Tax - Services

This bill imposes the sales tax on the following services, among others: cable television; motor vehicle maintenance and repair; parking; barber and beauty; docking and landing; funeral; storage; shoe repair; tax preparation; dating or escort; direct mail; exterminating; personnel supply; management consulting and public relations; interior decorating; and auctioneering. The sale of a parking service by a local government is exempt from the sales tax.

This bill is effective July 1, 1997.

Fiscal Summary

State Effect: General fund revenues could increase by an estimated $265.2 million in FY 1998, increasing by about 6.7% annually in the out-years. Expenditures would not be affected.

($ in millions)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	$265.2	$282.7	$301.4	$321.6	$343.3
GF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	$265.2	$282.7	$301.4	$321.6	$343.0

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

Local Effect: None.

Small Business Effect: Meaningful impact on small businesses as discussed below.

Fiscal Analysis

State Revenues: Data on gross receipts of businesses providing most of these services are available for 1992 from the *Census of Service Industries*. For those services which are not included (motor vehicle maintenance contracts and extended warranties, docking and landing, cable television), data was derived from current State or local tax revenue and/or industry sources. The data on gross receipts was adjusted for the following: (1) growth from 1992; (2) the portion of gross receipts representing currently taxable sales; (3) sales to governments and non-profit organizations; (4) sales which would still be exempt; (5) sales to out-of-State purchasers; and (6) significant tax compliance problems.

The annual growth rate used for these estimates was three-quarters of the growth rates from 1987 to 1992. Significant reductions from gross receipts to taxable receipts were made for the following categories: motor vehicle maintenance and repair, to account for currently taxable sales (35%) and sales to governments and non-profits (10%); cable television, to account for currently taxable pay-per-view sales (about 6%); barber and beauty services, to account for currently taxable sales (10%) and to account for services provided by businesses not in the barber/beauty category (increased by 25% for services provided by department stores and others); exterminating, for sales to government (10%); employment agencies, for sales to government (20%); and business consulting, for sales to government (25%) and out-of-State sales (25%).

The composite annual growth rate for the out-years is 6.7%.

Exhibit 1 details the estimated revenue increase in fiscal 1998 from these sources.

Exhibit 1
HB 580 Revenues
($ in millions)

Motor Vehicle Services	**$56.9**	**Direct Mail Advertising**	**$9.7**
Cable Television	21.0	Exterminating	6.5
Barber/Beauty	18.5	Employment/Temp	30.4
Tanning/Massage/Physical Fitness	4.2	Management Consulting	63.2
Docking/Landing	4.0	Testing Laboratory	3.9
Funeral	3.7	Miscellaneous	43.2
		TOTAL FY 98 REVENUE	$265.2

State Expenditures: Since many of these services are provided by businesses which must already collect the sales tax, the increased administrative burden is expected to be minimal. Any increase in administrative expenditures could be absorbed within existing resources.

Small Business Effect: This bill will have a substantial effect on small businesses that provide or purchase the services on which the sales tax is imposed. Small businesses which purchase these services will either pay more for these services, lowering profits or causing a reallocation of other spending decisions, or will purchase smaller quantities of these services, resulting in reduced income for businesses providing these services.

Sales could be reduced for all small businesses providing these newly taxable services. These reductions will vary from service to service and business to business in amounts that cannot be reliably be estimated at this time.

Information Source(s): Office of the Comptroller (Revenue Administration Division), *Census of Service Industries*, U.S. Department of Commerce, Department of Fiscal Services

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