

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 1102 (Delegate Klausmeier, *et al.*)
Ways and Means

Sales and Use Tax - Property Used in a Production Activity

This bill creates a credit against the sales and use tax for tangible personal property used in a production activity, and exempts such property from the sales tax beginning in fiscal 2001.

This bill is effective July 1, 1998.

Fiscal Summary

State Effect: General fund revenues could decline an estimated \$9.8 million in FY 1999. Out-year losses reflect full implementation of the bill and 5% annual growth. Expenditures would not be affected.

(\$ in millions)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	\$0.0	(\$9.8)	(\$21.9)	(\$38.6)	(\$38.1)
GF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	\$0.0	(\$9.8)	(\$21.9)	(\$38.6)	(\$38.1)

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

Local Effect: None.

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

Fiscal Analysis

Bill Summary: This bill provides for a credit against the sales and use tax and defines tangible personal property used in a manufacturing process. Tangible personal property used in a manufacturing process includes, among other items: noncapitalized machinery or equipment which would be exempt if it were capitalized; certain property not consumed within one year after it is first used in a manufacturing process; and equipment that is used to

move a finished product. Providing for employee safety and quality control are added to the definition of "production activity."

The sales tax credit is one-third of the purchase price of tangible personal property used in a production activity for property purchased in fiscal 1999, and two-thirds of the purchase price for property purchased in fiscal 2000. The Comptroller shall provide for refunds of the credit if sales and use tax remittances of a manufacturer are not sufficient to use the full amount of the credit within one year. The credit expires June 30, 2000, at which time tangible personal property used in a manufacturing process is exempt from the sales tax.

State Revenues: Manufacturing industries paid an estimated \$28.5 million in sales and use taxes in fiscal 1996 on machinery and equipment which would be eligible for the tax credit under this bill. Assuming growth of 5% per year, about \$33 million of taxes would be paid in fiscal 1999, so a 33% credit would result in the loss of about \$10.9 million. It is assumed that 90% of the credits attributable to fiscal 1999 would actually be claimed in fiscal 1999; the remainder would be claimed in fiscal 2000. Thus, the revenue loss for fiscal 1999 totals an estimated \$9.8 million. The revenue loss for fiscal 2000 totals an estimated \$21.9 million, which accounts for the two-thirds credit, 90% of the credits attributable to fiscal 2000, and 10% of the credits attributable to fiscal 1999. When this property becomes exempt in fiscal 2001, the revenue loss would total an estimated \$38.6 million.

Small Business Effect: Under the bill, small manufacturing businesses could receive a sales and use tax credit when purchasing tangible personal property for use in a manufacturing process and in fiscal 2001, the purchase of such property would be exempt from the sales tax. The amount of the total sales tax credit/exemption benefitting small businesses is unknown, but the cost of personal property used in a manufacturing process could be reduced.

Information Source(s): Office of the Comptroller (Compliance Division), Department of Fiscal Services

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