

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 182 (Senator Ferguson)
Budget and Taxation

Taxation of Flags and Flag-Related Items

This bill exempts sales of “flags” and flag-related items from the sales and use tax and local personal property taxes.

The bill is effective July 1, 1997.

Fiscal Summary

State Effect: Potential significant decrease in general fund revenues and potential indeterminate increase in general fund expenditures as discussed below.

Local Effect: Potential significant decrease in revenues. Minimal increase in expenditures as discussed below.

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

Fiscal Analysis

State Revenues: Information is not available on the amount of sales of flags and flag-related items that could be exempted from the sales and use tax pursuant to this bill. However, the sales and use tax revenue loss could be significant. Manufacturers may attempt to take advantage of the exemptions granted under this bill by attaching flags to their products. For instance, hat manufacturers may increase production of hats with flag emblems simply to avoid paying the sales and use tax.

State Expenditures: The sales and use tax exemption may impose a burden on the Comptroller's Office as it collects the sales and use tax. As noted above, there are substantial ambiguity problems in defining "flag-related items," which may pose significant administrative and collection difficulties. It must be determined what products are considered "flag-related items" in order to collect a sales and use tax on these purchases. The Comptroller's Office may require additional resources to administer the bill.

Local Revenues: Wicomico County is the only county that imposes a personal property tax on commercial inventory. Wicomico taxes 35% of the value of commercial value at a rate of \$2.25 per \$100 of assessed value. Approximately half of all municipalities tax commercial and/or manufacturing inventory. Local personal property tax revenues could decline to the extent that businesses would be exempt from paying this tax on flags and flag-related items in their inventory.

Local Expenditures: Counties and municipalities may incur increased expenditures to the extent that they would have to issue refunds or amend tax bills to taxpayers in fiscal 1998.

Small Business Effect: Small businesses that manufacture, sell, or install flags and flag-related items as defined in this bill could benefit. The exemption from the sales and use tax for flags and flag-related items would decrease the price which could result in greater sales of the products.

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

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