SB 385

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

Senate Bill 385 (Senator Harris, *et al.*)
Budget and Taxation

Sales and Use Tax - Elimination of Revenue Surplus

This bill requires the Board of Revenue Estimates to establish reduced sales and use tax rates for the second half of any fiscal year if, based on the December report of the Board of Revenue Estimates, general fund revenues are forecasted to exceed budgeted general fund expenditures for that fiscal year. The reduced sales and use tax rate must be established so as to eliminate the forecasted revenue surplus for the final six months of the fiscal year. The new rate must be included in the Board of Revenue Estimates' December report.

The bill takes effect July 1, 1999 and applies to all taxable years beginning after July 1, 1999.

Fiscal Summary

State Effect: Indeterminate effect on general fund revenues. Expenditures would increase by $61,500 in those fiscal years where rate changes are required.

Local Effect: None.

Small Business Effect: Minimal. Administrative costs for small businesses could increase, which could be offset by increased sales volume.

Fiscal Analysis

State Effect: The Board of Revenue Estimates issues a report on Estimated Maryland Revenues in December each year. The report provides actual State revenues collected for the preceding fiscal year, and estimates of State revenues for the current fiscal year and the subsequent fiscal year. The board report does not include balances from prior fiscal years. These balances, however, are accounted for in developing the budget.

Assuming that the budgeted general fund expenditures for any fiscal year is the legislative appropriation, the impact on State revenues would depend on the legislative appropriation and the general fund revenue estimates for that fiscal year. The legislative general fund appropriation for fiscal 1999 was $8,484 million. The fiscal 1999 general fund revenue estimate from December 1998 was $8,171 million. Assuming that prior year balances and transfers are not included in the calculation of the surplus, the sales tax rate would be unchanged in fiscal 1999 (if the bill were to apply in 1999).

If balances and transfers are included in the calculation, general fund revenues would total $8,776 million; resulting in a surplus of $291 million. The fiscal 1999 sales tax estimate is $2,260 million. Based on these estimates, the sales tax rate could be reduced from 5% to 4.5%, resulting in a revenue loss of approximately $226 million.

The proposed fiscal 2000 budget included $70 million in deficiency appropriations for fiscal 1999 and $25 million in anticipated reversions. It is unclear how these amounts would be treated under the bill. If included in the fiscal 1999 budget numbers, expenditures in fiscal 1999 total $8,529, which would reduce the surplus to $246 million.

If the sales tax rate is decreased, the Office of the Comptroller would incur $61,500 in expenditures to notify vendors of the rate change. The expenses account for postage costs to 100,000 accounts registered for the sales and use tax and other notification costs.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates), Department of Legislative Services

Fiscal Note History: First Reader - March 1, 1999
mld/jr

Analysis by: Lina Walker

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510