

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

Senate Bill 191 (Chairman, Budget and Taxation Committee)
(Departmental - Comptroller)

Budget and Taxation

Sales and Use Tax Exemption - Property Used in a Production Activity

This departmental bill clarifies that the sales and use tax does not apply to a sale of tangible personal property used directly and predominantly in a production activity if the tangible personal property is not installed so that it becomes real property. The bill also clarifies that the sales and use tax does not apply if the tangible personal property is a foundation to support other machinery or equipment or an item required to conform to an air or water pollution law and normally considered part of real property.

This bill takes effect July 1, 2000.

Fiscal Summary

State Effect: None. This bill clarifies current law.

Local Effect: None.

Small Business Effect: The Comptroller's Office has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Current Law: The tangible personal property described above is currently exempt from the sales and use tax; however, that exemption will expire on July 1, 2000, as discussed below.

Background: This bill corrects an error in Chapter 4 of 1997 (1997 Tax Reduction Act). Existing law exempts from the sales and use tax the sale of a foundation to support other

machinery or equipment used in a production activity or an item required to conform to an air or water pollution law and normally considered part of real property. This provision was inadvertently omitted from the general exemption language included in the 1997 legislation that is to take effect July 1, 2000. This proposal corrects that omission.

The Comptroller's Office advises that purchases by manufacturers of such tangible personal property have been exempt since the 1970s. The 1997 legislation was intended to broaden the exemptions available to manufacturers for machinery and equipment used in a production activity, bringing Maryland in line with other jurisdictions. Absent a correction of the statute, manufacturers will be faced with paying the sales tax on items not previously subject to tax.

State Revenues: The fiscal estimate for the 1997 legislation assumed the broadening of the exemption. The intent of that legislation was to expand the available exemptions without repealing any current provisions.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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