

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 1035 (Delegate R. Baker. *et al.*)

Ways and Means

Sales and Use Tax - Exemption for Sales Under One Dollar

This bill exempts from the sales and use tax sales of tangible personal property and taxable services having a taxable price of less than \$1.

The bill takes effect July 1, 2000.

Fiscal Summary

State Effect: General fund revenues would decline, depending on the amount of sales tax revenue associated with transactions of less than \$1. If sales and use tax revenue declines by one-half of 1%, general fund revenue would decline by as much as \$11.5 million. Expenditures would not be materially affected.

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Current Law: The current sales and use tax rate for a transaction with a taxable price of less than \$1 is one cent if the taxable price is 20 cents and one cent for each additional 20 cents or part of 20 cents. For transactions of \$1 or more, the sales tax rate is effectively 5%.

State Revenues: The loss in general fund revenues as a result of this bill cannot be reliably estimated because the tracking of sales tax receipts by the Comptroller's Office cannot separately identify receipts based on the transaction price.

For illustrative purposes, if one-half of 1% of all sales in fiscal 1999 had a purchase price of 99 cents, the loss of revenue would have been \$11.5 million under the bill. In addition, under the bill, it can be expected that products priced at \$1 or slightly more might be reduced to 99

cents in order to qualify for the exemption. Transactions over \$1 would be subject to the 5% rate on the full price. Revenues losses would increase accordingly.

State Expenditures: The Comptroller's Office would incur approximately \$14,150 in one-time administrative costs to notify retailers of the change in law.

Small Business Effect: For small businesses that sell only products that cost less than \$1, such as vending machine operators, administrative costs may decline. For small businesses that sell products for under \$1 and over, administrative costs could increase to account for taxable and nontaxable items separately.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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