

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE

House Bill 1125 (Delegate Oaks, *et al.*)
Ways and Means

Ammunition Tax

This bill imposes a tax on the retail sale and use of ammunition. Ammunition is taxed at the rate of 50 cents per round, except for antipersonnel ammunition which is taxed at \$5 per round. The sales tax of 5% still applies to the sale of ammunition, though the ammunition tax is not part of the sales tax base. A credit of 0.5% of gross collections is allowed a person who timely files an ammunition tax return with the Comptroller.

The bill is effective July 1, 2001.

Fiscal Summary

State Effect: General fund revenues could increase by approximately \$15.7 million in FY 2002 due to increased sales taxes on ammunition. FY 2002 and future year revenues assume an immediate decrease in sales and slower than projected future sales growth. Administrative expenditures by the Comptroller's Office would increase by approximately \$159,400 in FY 2002 for one-time and ongoing expenses to administer the tax. Future year expenditures reflect annualization and growth.

(\$ in millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
GF Revenue	\$15.7	\$16.0	\$16.3	\$16.6	\$17.0
GF Expenditure	.2	.1	.1	.1	.1
Net Effect	\$15.5	\$15.9	\$16.3	\$16.6	\$16.9

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

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Current Law: Ammunition is currently subject to the 5% sales and use tax.

State Revenues: State general fund revenues could increase by \$15.7 million beginning in fiscal 2002, based on the following assumptions:

- based on the collections of the federal 11% excise tax on ammunition, it is estimated that U.S. sales of ammunition totaled approximately \$630 million in fiscal 2000, and based on Maryland's population, it is assumed that Maryland's share of ammunition sales was approximately \$12 million (less approximately 2% of sales to local police forces);
- factoring in 5% annual growth from fiscal 2000 to fiscal 2002, and assuming that general ammunition accounts for 98% of all sales and antipersonnel ammunition accounts for 2% of sales, then fiscal 2002 taxable sales (absent this proposal) would be approximately \$12.7 million for general ammunition and approximately \$260,000 for antipersonnel ammunition;
- assuming that general ammunition can range in price from a few cents per round to several dollars per round, but on average costs 20 cents per round, and that antipersonnel ammunition costs on average \$1 per round;
- assuming that the tax causes sales of general ammunition to decrease by approximately 50% and antipersonnel ammunition by 90% in the first year due to the substantial increase in the after-tax price of ammunition (the tax could be avoided in several ways, including going out-of-State to purchase ammunition and reusing ammunition.); and
- adjusting for lost currently collected sales tax revenue and the vendor credit.

It is assumed that future sales of ammunition will grow by 2%, rather than the historical 5%, due to the higher tax rate.

State Expenditures: General fund expenditures could increase by an estimated \$159,400 in fiscal 2002, which accounts for a 90-day start-up delay. This estimate reflects the cost of hiring one additional revenue examiner to register vendors and tabulate the tax. It includes a salary, fringe benefits, and ongoing operating expenses. In addition, there will be a one-time expenditure of approximately \$95,000 to develop a computer system for collection and tracking the tax, as well as administrative costs associated with identifying

and notifying vendors of the new requirements. (The ammunition tax cannot be accommodated on the current sales and use tax form.)

Future year expenditures reflect: (1) full salaries with a 6.5% increase in fiscal 2003 and a 4.5% increase each year thereafter, with 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Small Business Effect: Small businesses that sell ammunition, including gun dealers, hunting and fishing supply shops, target ranges, and other businesses would be negatively affected, depending on the proportion of their revenues attributable to ammunition. As noted above, retailers near the State's borders that compete with sellers not subject to the tax would be particularly affected.

Additional Information

Prior Introductions: SB 258 of 1994 was withdrawn prior to hearing by the Senate Budget and Taxation Committee.

Cross File: None.

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

Fiscal Note History: First Reader – February 27, 2001
jm/jr

Analysis by: Matthew D. Riven

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