

Department of Legislative Services
 Maryland General Assembly
 2001 Session

FISCAL NOTE

House Bill 1337 (Delegate Hixson)
 Ways and Means

Sales and Use Tax - Services

This bill imposes the sales tax on certain services, including (among others): cable television; auto repair; parking; barber and beauty; tanning, massage, or physical fitness; docking and landing; funeral; storage; shoe repair; tax preparation; dating or escort; direct mail; exterminating; management consulting and public relations; interior decorating; and auctioneering.

The bill is effective July 1, 2001.

Fiscal Summary

State Effect: General fund revenues could increase by an estimated \$423.3 million in FY 2002, increasing by about 5% annually in the out-years.

(\$ in millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
GF Revenue	\$423.3	\$444.5	\$466.7	\$490.0	\$514.5
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$423.3	\$444.5	\$466.7	\$490.0	\$514.5

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

Local Effect: None. The sale of a parking service by a local government is exempt.

Small Business Effect: Meaningful.

Analysis

State Revenues: Data on gross receipts of businesses providing most of these services are available for 1997 from the *Economic Census* of the U. S. Census Bureau. For those services which are not included, data was derived from current State or local tax revenues and/or industry sources. The data on gross receipts was adjusted for the following: (1) growth from 1997; (2) the portion of gross receipts representing currently taxable sales;

(3) sales to federal, State, and local governments, nonprofit organizations, and out-of-State purchasers; and (4) tax noncompliance issues. The composite annual growth rate for the out-years is 5%. **Exhibit 1** (attached) details the estimated revenue increase in fiscal 2002 from these sources.

State Expenditures: Because many of these services are provided by businesses that already collect the sales tax, the increased ongoing administrative burden could be absorbed within existing resources. There may be costs associated with developing the regulations defining the scope of these taxable services.

Small Business Effect: This bill will have a substantial effect on small businesses that provide or purchase the services on which the sales tax is imposed. Small businesses that purchase these services will either pay more for these services, lowering profits or causing a reallocation of other spending decisions, or will purchase smaller quantities of these services. Small businesses providing these newly taxable services will experience losses in sales for the reasons noted above. The amount of such losses will vary and cannot be reliably estimated at this time.

Additional Information

Prior Introductions: A similar bill, HB 580, was introduced in the 1997 session. It was not reported from the House Ways and Means Committee.

Cross File: None.

Information Source(s): Comptroller's Office, *U. S. Economic Census*, Department of Legislative Services

Fiscal Note History: First Reader – March 19, 2001
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**Exhibit 1
HB1337 – Sales Tax on Certain Services**

<u>Category</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
Cable	\$32.6	\$34.2	\$35.9	\$37.7	\$39.6
Auto Service	79.6	83.6	87.8	92.1	96.8
Parking	8.7	9.2	9.6	10.1	10.6
Barber/Beauty	17.8	18.7	19.6	20.6	21.6
Tanning/Massage/Physical Fitness	10.3	10.8	11.3	11.9	12.5
Docking/Landing	5.2	5.4	5.7	6.0	6.3
Funeral	4.8	5.0	5.3	5.5	5.8
Storage	7.8	8.2	8.6	9.0	9.5
Shoe Repair	0.3	0.3	0.3	0.3	0.3
Tax Preparation	2.3	2.4	2.5	2.6	2.8
Sauna/Steam Bath*	-	-	-	-	-
Weighing Machine*	-	-	-	-	-
Public Locker*	-	-	-	-	-
Dating/Escort*	-	-	-	-	-
Dieting	1.0	1.1	1.1	1.2	1.2
Direct Mail	14.9	15.6	16.4	17.2	18.1
Commercial Photo/Art stenographic	3.0	3.1	3.3	3.4	3.6
Exterminating	2.7	2.9	3.0	3.2	3.3
Personnel/Temp	6.3	6.6	6.9	7.3	7.6
Management Consulting	132.5	139.1	146.1	153.4	161.1
Testing Lab	84.2	88.4	92.9	97.5	102.4
Sign Painting	6.6	6.9	7.3	7.7	8.0
Interior Decorating	0.7	0.8	0.8	0.9	0.9
Auctioneering	0.5	0.5	0.5	0.6	0.6
Business Brokerage*	1.3	1.4	1.5	1.6	1.6
Drafting*	-	-	-	-	-
Independent Lecture Bureau*	-	-	-	-	-
Printing Brokerage*	-	-	-	-	-
Notary Public	0.3	0.3	0.3	0.3	0.3
Shop Window Decorating*	-	-	-	-	-
Total	\$423.3	\$444.5	\$466.7	\$490.0	\$514.5

Sources: 1997 Economic Census, U.S. Census Bureau; U.S. Statistical Abstract; Comptroller's Office; Department of Legislative Services

Notes:

*Indeterminate or assumed to be minimal.

General: Assumes historic category growth from FY 1997 to FY 2002 (or 5% where unavailable); assumes 5% growth rate from FY 2002 to FY 2006; adjusts for estimated exempt sales (to governments, nonprofits, etc.), noncompliance, and sales of goods and/or services that are already subject to the sales tax.