

Department of Legislative Services
Maryland General Assembly
2002 Session

FISCAL NOTE

House Bill 1120
Ways and Means

(Delegate Rudolph)

Budget and Taxation

Sales and Use Tax - Effective Rate Agreements

This bill authorizes the Comptroller to enter into effective rate agreements that allow a vendor to compute sales and use tax liability for purchases made by the vendor for a specific period using a predetermined agreed-upon effective rate. The bill also authorizes the Comptroller to issue direct payment permits for vendors subject to an effective rate agreement.

The bill takes effect July 1, 2002.

Fiscal Summary

State Effect: None. The amount of sales and use tax revenues collected should not be affected, and administration of the effective rate agreements and direct payment permits could be handled with existing resources.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill permits the Comptroller to enter into an effective rate agreement with a licensed vendor to allow the vendor to compute its sales and use tax liability for purchases made by the vendor for a specific period using a predetermined agreed-upon effective rate, eliminating the need to determine the liability on a transaction-by-transaction basis.

An effective rate agreement: (1) must specify the types of records to be maintained by the vendor; and (2) may exclude specified types of purchases or purchases in excess of specified dollar amounts. The Comptroller may void an effective rate agreement if the vendor's operations significantly change during the term of the agreement.

If the Comptroller enters into an effective rate agreement with a vendor under this bill, the Comptroller may issue a direct payment permit authorizing the vendor to make direct payment, to the Comptroller, of the sales and use tax due on purchases by that vendor that are subject to the effective rate agreement. A direct payment permit issued under this provision remains in effect as long as the effective rate agreement is in effect.

Current Law: The Comptroller may administer direct payment permits that were issued prior to July 1, 1993, but may not issue any new permits since that date. These existing permits grant the authority to make direct payment to the Comptroller of sales and use tax due on purchases by a vendor. A vendor who receives evidence that the buyer has a direct payment permit is discharged from the duty to collect the sales and use tax and from the liability for the sales and use tax.

Background: An effective rate agreement allows the Comptroller to review the purchasing records of the taxpayer and calculate an overall tax rate applicable to all purchases by that taxpayer. Once the agreement is in place and the taxpayer has a direct payment permit, sales to the taxpayer are no longer collected by the taxpayer's suppliers. Instead, the taxpayer pays the tax directly to the Comptroller based on the taxpayer's total purchases. For example, a manufacturer whose purchases are generally 60% taxable and 40% exempt may pay 3% (60% of the 5% tax rate) on all purchases under the effective rate agreement. This reduces the need for the taxpayer to determine on an invoice-by-invoice basis whether or not the transaction is taxable.

State Revenues: The Comptroller's Office advises that the net sales and use tax collected should be the same under effective rate agreements (combined with the direct payment permits and negotiated between the purchaser and the Comptroller) as it would if the State received the remitted sales tax collected by the seller. The timing of these collections may be altered slightly.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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ncs/jr

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