

Department of Legislative Services
 Maryland General Assembly
 2002 Session

FISCAL NOTE

House Bill 1245 (Delegate Stocksdales, *et al.*)
 Ways and Means

Sales and Use Tax - Exemptions - Nonprofit Organizations

This bill exempts from the sales and use tax a sale to a nonprofit organization qualified as tax exempt under Section 501(c)(4) of the Internal Revenue Code.

The bill takes effect July 1, 2002.

Fiscal Summary

State Effect: General fund revenues could decline by approximately \$2.7 million in FY 2003. Future year revenue losses are based on projected sales tax growth. Expenditures would not be affected.

(\$ in millions)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
GF Revenue	(\$2.7)	(\$2.9)	(\$3.0)	(\$3.2)	(\$3.4)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$2.7)	(\$2.9)	(\$3.0)	(\$3.2)	(\$3.4)

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: These organizations are currently subject to the 5% sales and use tax.

Background: Section 501(c)(4) organizations are defined “as civic leagues or organizations not organized for profit but operating exclusively for the promotion of social welfare, or local associations of employees, the membership of which is limited to

the employees of a designated person or persons in a particular municipality, and the net earnings of which are devoted exclusively to charitable, educational, or recreational purposes.” To be considered operated exclusively for the promotion of social welfare, an organization must operate primarily to further (in some way) the common good and general welfare of the people of the community (such as by bringing about civic betterment and social improvements).

By contrast, Section 501(c)(3) organizations are commonly referred to under the general heading of “charitable organizations,” and must be organized and operated exclusively for one or more of the following purposes: charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, and the prevention of cruelty to children or animals. Many 501(c)(3) organizations are currently exempt from the sales and use tax under a State exemption for sales to charitable, educational, or religious organizations.

State Revenues: During 1998 -- the most recent year for which data is available -- spending by 501(c)(3) organizations was approximately \$685 billion nationwide, versus \$38 billion for 501(c)(4) organizations. Based on the Department of Budget and Management’s estimate of the amount of exempt spending by 501(c)(3) organizations, and the relative size of 501(c)(4) organizations noted above, it is estimated that State sales tax would decline by \$2.7 million in fiscal 2003. Future year revenue losses are based on Board of Revenue Estimates projections for sales tax growth.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Budget and Management, Comptroller’s Office, Department of Legislative Services

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mld/jr

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