

Department of Legislative Services
 Maryland General Assembly
 2003 Session

FISCAL AND POLICY NOTE

House Bill 1053 (Delegates Hixson and Rawlings)
 Ways and Means

Sales and Use Tax - Rate

This bill raises the general sales and use tax rate from 5% to 6%.

The bill takes effect July 1, 2003.

Fiscal Summary

State Effect: Sales tax revenues (general funds) could increase by \$530.6 million in FY 2004, increasing in the out-years based on projected sales tax growth and incorporating a projected 1% decline in taxable sales. To the extent that sales decline further than projected, sales tax revenues would decline correspondingly. The Comptroller’s Office could administer the bill with existing budgeted resources.

(\$ in millions)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
GF Revenue	\$530.6	\$558.2	\$586.3	\$613.7	\$644.4
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$530.6	\$558.2	\$586.3	\$613.7	\$644.4

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

Local Effect: None.

Small Business Effect: Meaningful. To the extent that the additional sales tax rate encourages consumers to shift purchases to out-of-state or remote sellers and away from Maryland retailers that are small businesses, these small businesses could experience a meaningful negative impact. Small businesses may also experience minimal additional costs due to reprogramming their cash registers.

Analysis

Current Law: The general sales and use tax rate is 5%. Revenues go to the general fund. There is a separate sales tax rate for short-term vehicle rentals that is not affected by the bill (the revenues for which are shared between the general fund and the Transportation Trust Fund).

Background: The sales tax rates for neighboring states are as follows: District of Columbia (5.75%), West Virginia (6%), Pennsylvania (6%, plus local 1% sales tax in certain local jurisdictions; no sales tax on clothing), Delaware (none, but a gross receipts tax on retailers), and Virginia (4.5%), includes 1% for local governments. **Appendix 1** sets forth the sales tax rates for all states.

State Revenues: State sales tax revenues (general funds) could increase by \$530.6 million in fiscal 2004, increasing in the out-years based on projected sales tax growth and incorporating a projected 1% decline in taxable sales, as illustrated in **Exhibit 1**.

Exhibit 1 Projected Increase in Sales and Use Tax Revenues (\$ in Millions)

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Current GF Estimate	2,850.8	2,999.4	3,150.4	3,297.7	3,462.6
Less Rental Vehicle Revenues	2,822.1	2,969.2	3,118.7	3,264.5	3,427.7
Implied Taxable Sales @ 5%	56,442.1	59,383.8	62,374.5	65,290.4	68,554.9
Implied Taxable Sales with 1% Decline	55,877.6	58,789.9	61,750.7	64,637.5	67,869.4
Total Revenues @ 6%	3,352.7	3,527.4	3,705.0	3,878.3	4,072.2
Net GF Revenue Increase	530.6	558.2	586.3	613.7	644.4

The 1% decline in taxable sales reflects sales that no longer are subject to Maryland sales tax for three reasons: (1) the sale does not take place at all because the marginal cost dissuades the purchaser (minimal); (2) the sale is diverted to a neighboring state where the sales tax rate is lower; or (3) the sale is diverted to a remote seller, such as an Internet or mail order retailer. To the extent that sales decline further than projected, sales tax revenues would decline correspondingly.

Small Business Effect: Increasing the State sales tax by one percentage point makes Maryland's sales tax higher than the District of Columbia (5.75%) and equal to West Virginia (6%) and Pennsylvania (6%). Maryland's sales tax is currently higher than Delaware (0%, though the state has a gross receipts tax on retailers) and Virginia (4.5%). Increasing the sales tax in Maryland may result in a decline in consumer purchases in the State. Residents may make more purchases in neighboring states that have a lower tax rate or on the Internet. With annual taxable sales totaling \$57 billion, a 1% decline in sales would cost Maryland businesses \$570 million in gross sales.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 3, 2003
ncs/jr

Analysis by: Matthew D. Riven

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

Appendix 1
Major Features of State Sales Taxes
Comparison with Other States
(as of August 2002)

<u>State</u>	<u>% Tax Rate</u>	<u>States Exempting</u>		<u>State</u>	<u>% Tax Rate</u>	<u>States Exempting</u>	
		<u>Food</u>	<u>Prescr. Drugs</u>			<u>Food</u>	<u>Prescr. Drugs</u>
Alabama	4		E	Nebraska	5 ⁴	E	E
Alaska	No State Sales Tax			Nevada	6.5 ⁵	E	E
Arizona	5.6	E	E	New Hampshire	No State Sales Tax		
Arkansas	5.125		E		6	E	E
California	6	E	E	New Mexico*	5		E
Colorado	2.9	E	E	New York	4	E	E
Connecticut*	6	E	E	North Carolina	4.5		E
Delaware	No State Sales Tax			North Dakota	5	E	E
D.C.*	5.75	E ⁶	E	Ohio	5	E	E
Florida	6	E	E	Oklahoma	4.5		E
Georgia	4	E	E	Oregon	No State Sales Tax		
Hawaii	4		E	Pennsylvania	6	E	E
Idaho	5		E	Rhode Island*	7	E	E
Illinois	6.25	1%		South Carolina	5		E
Indiana*	5 ¹	E	E	South Dakota	4		E
Iowa	5	E	E	Tennessee	7		E
Kansas	5.3 ²		E	Texas	6.25	E	E
Kentucky	6	E	E	Utah	4.75		E
Louisiana	4	E ⁷	E	Vermont	5	E	E
Maine*	5	E ⁶	E	Virginia	4.5		E
Maryland*	5	E	E	Washington	6.5	E	E
Massachusetts*	5	E	E	West Virginia*	6		E
Michigan*	6	E	E	Wisconsin	5	E	E
Minnesota	6.5	E	E	Wyoming	4		E
Mississippi*	7		E	U.S.		29	44
Missouri	4.225 ³	1%	E				
Montana	No State Sales Tax						

* Local sales/use taxes not authorized or imposed.

E - Exempt from sales tax.

¹ Effective December 1, 2002, the tax rate increases to 6%.

² Effective July 1, 2004, the rate decreases to 5.2% and effective July 1, 2005, the rate decreases to 5%.

³ Rate decreases to 4.125% on November 8, 2008.

⁴ From October 1, 2002 through September 30, 2003, the rate increases to 5.5%.

⁵ Tax rate is a composite of a 2% state rate plus a 4.5% state-mandated county rate.

⁶ Snack foods excluded from exemption.

⁷ Exemption suspended until June 30, 2004. Tax rate on food for home consumption is reduced to 3.9% on July 1, 2002 and to 3.8% on July 1, 2003.

Source: CCH Incorporated; *State Tax Guide 2002*, Department of Legislative Services

