

Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

Senate Bill 643 (Senators Ruben and Grosfeld)
Budget and Taxation

Sales and Use Tax - Exemptions - Agricultural Products

This bill would remove the current sales and use tax exemption for purchases of fertilizer, fungicide, herbicide, or insecticide for an agricultural purpose.

The bill takes effect July 1, 2003.

Fiscal Summary

State Effect: State sales tax revenues could increase by approximately \$5.7 million beginning in FY 2004. Future year revenues are estimated to grow at 5%. The Comptroller's Office would incur one-time administrative expenses of approximately \$8,000 in FY 2003.

(\$ in millions)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
GF Revenue	\$0	\$5.7	\$6.0	\$6.3	\$6.6
GF Expenditure	0	0	0	0	0
Net Effect	(\$0)	\$5.7	\$6.0	\$6.3	\$6.6

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

Local Effect: None.

Small Business Effect: Minimal. Small business farms would experience a 5% increase in the cost of these goods.

Analysis

Current Law: The sales and use tax does not apply to a sale of the following items for an agricultural purpose: livestock, feed or bedding for livestock, seed, fertilizer, fungicide, herbicide, insecticide, baler twine or wire, or fuel for use in farm equipment or a farm tractor. Additional purchases of certain agricultural equipment are exempt if bought by a farmer.

Background: The Department of Budget and Management, in its annual *Tax Expenditure Report*, estimates that the agricultural exemption results in approximately \$56.1 million in foregone revenue for fiscal 2004. This estimate, however, does not distinguish the revenue loss among the various exempt products.

State Fiscal Effect: The U.S. Department of Agriculture's *Census of Agriculture* estimates that spending in Maryland in 2001 was approximately \$68.7 million for commercial fertilizer and \$44.9 million for agricultural chemicals, for a total of \$113.6 million. At the 5% sales tax rate, approximately \$5.7 million in foregone revenues would be recouped. Future year revenues are estimated to grow at 5%.

The Comptroller would incur approximately \$8,000 in fiscal 2003 to publicize the change in tax status of these purchases.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 6, 2003
mam/jr

Analysis by: Matthew D. Riven

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