

Department of Legislative Services  
Maryland General Assembly  
2003 Session

FISCAL AND POLICY NOTE

House Bill 457  
Ways and Means

(Prince George's County Delegation)

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Prince George's County - Commercial Entertainment Zones - Sales Tax on Food  
and Beverages  
PG 415-03

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This bill authorizes the Prince George's County Council to impose a maximum 1% sales tax on the sale of food and beverages in commercial entertainment zones located in the county's municipalities.

The bill is effective July 1, 2003.

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Fiscal Summary

**State Effect:** General fund revenues would not be materially affected by an additional sales tax imposed in commercial entertainment zones in municipalities in Prince George's County.

**Local Effect:** Prince George's County revenues could increase by \$95,000 in FY 2004 and by \$107,200 in FY 2008. Administrative expenses could total \$4,800 in FY 2004 and \$5,400 by FY 2008.

**Small Business Effect:** Meaningful.

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Analysis

**Current Law:** A county, municipal corporation, special taxing district, or other political subdivision of the State may not impose any retail sales or use tax except: (1) a sales tax or use tax that was in effect on January 1, 1971; (2) a tax on the sale or use of fuels,

utilities, space rentals, or any controlled dangerous substance; or (3) a tax imposed by a code county on the sale or use of food and beverages authorized under Article 25B, Section 13H.

**Background:** There are 27 municipalities in Prince George's County. According to the Maryland State Police, all municipalities in Prince George's County are expected to qualify for the State Aid for Police Protection program in fiscal 2004 except for the municipalities of Brentwood, College Park, and North Brentwood. Not all municipalities in Prince George's County have commercial entertainment zones.

Ocean City is authorized to impose a 1% tax surcharge on food and beverages sold at restaurants and bars within the city limits under Article 25B, Section 13H. The additional tax revenue is dedicated to retiring the debt on the Ocean City Convention Center and the tax surcharge sunsets when the debt is retired.

**Local Fiscal Effect:** The Comptroller's Office advises that in fiscal 2001 approximately \$45.6 million was collected in Prince George's County in seven industry categories with significant sales in taxable food and beverages. This is approximately \$911.8 million in total taxable sales in fiscal 2001. Assuming annual growth of 3%, total taxable sales in Prince George's County would increase to approximately \$967.3 million in fiscal 2004 and approximately \$1.1 billion by fiscal 2008.

Prince George's County assumes 1.0% of all economic activity in taxable food and beverages in the county occur inside a commercial entertainment zone in a municipality. Accordingly, total taxable sales in commercial entertainment zones in fiscal 2004 is estimated to be \$9.7 million in fiscal 2004 and \$10.9 million in fiscal 2008. Assuming Prince George's County imposes an additional 1.0% tax on food and beverages in commercial entertainment zones in municipalities, county revenues would increase by approximately \$95,279 in fiscal 2004 and approximately \$107,237 by fiscal 2008. These estimates assume vendors keep 1.5% of the gross tax to cover collection costs. Prince George's County is authorized to keep 5.0% of the gross tax to cover administration costs. It is assumed that revenue from the administrative fee would cover the cost of administering the tax.

Accordingly, municipalities in Prince George's County that have designated entertainment zones would receive increased revenue from the imposition of the tax. Municipal revenues would increase by approximately \$90,515 in fiscal 2004 and by approximately \$101,875 in fiscal 2008.

See **Exhibit 1** for more information on county and municipal revenues.

Due to the method by which the Comptroller apportions sales tax revenues to the counties, the county's actual collections could differ significantly from the estimate above. Legislative Services advises, however, that there is no alternative, more accurate measure of retail sales taking place in the county.

**Exhibit 1**  
**Projected Increase in Sales and Use Tax Revenues**

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Gross Revenues	\$95,279	\$98,137	\$101,081	\$104,114	\$107,237
Administrative Fee	\$4,764	\$4,907	\$5,054	\$5,206	\$5,362
Net Revenues	\$90,515	\$93,230	\$96,027	\$98,908	\$101,875

**Small Business Effect:** Restaurants that are small businesses in commercial entertainment zones in municipalities in Prince George's County could be negatively impacted as customers could choose to avoid the higher tax rate on food and beverages. Also, there will be additional initial costs associated with reprogramming cash registers and ongoing administrative costs from remitting the tax collections. In most cases, these costs will be offset by the vendor commission.

**Additional Comments:** Section 817C of the Prince George's County Charter requires approval at referendum any ordinance or resolution levying or charging the amount of tax or fee in excess of the amount levied or charged in the preceding fiscal year. However, the Office of the Attorney General has advised that a public local law in Prince George's County enacted by the General Assembly would not require a voter referendum unless specified in the bill.

HB 422 of 2003 would authorize the governing body of a county to impose a sales tax on food and beverages in municipalities with entertainment zones to pay for law enforcement services associated with increased commercial traffic in entertainment zones.

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Prince George's County, Ocean City, Comptroller's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - March 12, 2003  
ncs/hlb

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