

Department of Legislative Services  
Maryland General Assembly  
2004 Session

FISCAL AND POLICY NOTE

House Bill 409  
Ways and Means

(Delegate Impallaria, *et al.*)

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Sales and Use Tax - Exemption - Veterans Organizations

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This bill exempts from the Maryland sales and use tax a sale made to a bona fide nationally organized and recognized veterans organization or an auxiliary of the organization or its units, if the organization is qualified as tax exempt under Section 501 (c) (19) of the Internal Revenue Code.

The bill takes effect July 1, 2004.

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Fiscal Summary

**State Effect:** General fund revenues would decrease, depending on the amount of sales made to veterans organizations in the State. Under one set of assumptions, general fund revenues could decrease by \$250,000 annually.

**Local Effect:** None.

**Small Business Effect:** None.

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Analysis

**Current Law:** The State sales and use tax rate is 5%. However, sales made to several different types of organizations are exempt from the sales and use tax as provided under Section 11-204 of the Tax – General Article. These include sales made to: (1) tax exempt cemetery companies; (2) a credit union organized under the laws of the State or of the United States; (3) specified nonprofit organizations; (4) specified nonprofit incorporated senior citizens’ organizations if the sale does not exceed \$500; (5) a

volunteer fire company or department or volunteer ambulance company or rescue squad located in the State made to carry on the work of the company, department, or squad; (6) a nonprofit parent-teacher association located in the State if the association makes the purchase to contribute the property to a school to which a sale is exempt; and (7) a nonprofit organization made to carry on its work, if the organization is qualified as tax exempt under Section 501(c)(4) of the Internal Revenue Code and is engaged primarily in providing a program to render its best efforts to contain, clean up, and otherwise mitigate spills of oil or other substances occurring in United States coastal and tidal waters.

**Background:** There are 134 veterans organizations in the United States that are chartered by Congress. Thirty-five of these organizations have active chapters in Maryland and an additional 12 have no current members in the State. There are 155 American Legion Posts in Maryland as well as 125 Sons of the American Legion Posts.

The following states have a general exemption from the sales tax for sales to veterans organizations: Alabama (state headquarters only), Florida, Minnesota (if the material is to be used for charitable, civic, education, etc. uses and not for social, recreational, or profit, etc. uses), New Jersey, New York, Oklahoma (for the Disabled American Veterans, Department of Oklahoma only), South Carolina, and Virginia (until July 1, 2004.)

**State Fiscal Effect:** General fund revenues will decrease as a result of the exemption from the sales tax being provided to sales made to qualified veterans organizations. However, the amount of the revenue decrease depends on the amount of sales made to qualifying veterans groups and the value of these sales, which cannot be reliably estimated at this time.

For illustrative purposes only, if there are 500 active veterans and associated units operating in the State and each spends approximately \$10,000 annually on taxable goods and services, then general fund revenues could decrease by \$250,000 each year. It should also be noted that the *Tax Expenditure Report* for fiscal 2004 indicates that the sales tax exemption for food sold by these organizations for consumption on their premises is estimated to reduce State sales tax revenues by \$1.1 million. Assuming these organizations purchase the food and supplies for half the price at which they sell the prepared food, and assuming that half of these food and supply purchases are already exempt under the food exemption, sales tax revenues from the organizations' purchases would decline by \$275,000 annually. Additional exempt purchases of major items for the organizations' facilities could cause the revenue loss to be higher.

As drafted, the bill would apply to groups who are associated with veterans organizations, but members of these associated groups do not have to be veterans.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 3 (Senators Harris and Stone) – Budget and Taxation.

**Information Source(s):** Comptroller's Office, Maryland Department of Veterans Affairs, Department of Legislative Services

**Fiscal Note History:** First Reader - January 30, 2004  
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Analysis by: Michael Sanelli

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