

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE

House Bill 87 (Delegates Gilleland and Boschert)
 Ways and Means

Sales and Use Tax - Funeral-Related Products

This bill exempts the sale of coffins, caskets, burial vaults, tombstones, or other grave monuments, markers, or memorials from the State sales and use tax.

The bill takes effect July 1, 2005.

Fiscal Summary

State Effect: General fund revenues could decrease by approximately \$12.1 million in FY 2006. Future year revenues reflect population increases and inflation. Expenditures are not affected.

| (\$ in millions) | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|------------------|----------|----------|----------|----------|----------|
| GF Revenue | (\$12.1) | (\$12.4) | (\$12.7) | (\$13.0) | (\$13.3) |
| Expenditure | \$0 | \$0 | \$0 | \$0 | \$0 |
| Net Effect | (\$12.1) | (\$12.4) | (\$12.7) | (\$13.0) | (\$13.3) |

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: The sale of coffins, caskets, burial vaults, tombstones, or other grave monuments, markers, or memorials is not exempt from the sales and use tax. The sales and use tax is paid on the wholesale price of caskets, coffins, and burial vaults by funeral homes. Consumers do not pay sales tax on the retail purchase. However, purchasers of

monuments and other markers pay the sales tax on the retail price of these items because the sales tax is not paid on the wholesale price.

Background: The sales and use tax is the State’s second largest source of general fund revenues accounting for approximately \$3.2 billion in fiscal 2006. The Maryland sales and use tax rate is currently set at 5.0%.

State Fiscal Effect: General fund revenues could decrease by approximately \$12.1 million in fiscal 2006, based on the following facts and assumptions:

- based on Census data, Maryland’s population is estimated to be 5,653,072 in fiscal 2006, increasing by about 1.3% annually;
- Maryland’s mortality rate in calendar 2003 was 850.4 per 100,000, decreasing by approximately 1.3% annually;
- in 2001, approximately 25% of burials were done by cremation;
- the average taxable price for funeral products for a burial (caskets, vaults, and markers) is \$6,686;
- the average taxable price of funeral products for cremation (casket and marker) is approximately \$1,300; and
- costs for funeral-related products will increase by about 2% annually.

Exhibit 1 details the general fund revenue decrease for fiscal 2006 through 2010.

Exhibit 1
Fiscal Effect of Exempting Funeral-related Products
from the Sales and Use Tax

| | <u>FY 2006</u> | <u>FY 2007</u> | <u>FY 2008</u> | <u>FY 2009</u> | <u>FY 2010</u> |
|----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Estimated Population | 5,653,072 | 5,726,562 | 5,801,007 | 5,876,420 | 5,952,813 |
| Adjusted Mortality Rate | 0.82% | 0.81% | 0.80% | 0.79% | 0.78% |
| Deaths | 46,355 | 46,385 | 46,408 | 46,424 | 46,432 |
| Burials | 33,608 | 33,861 | 34,110 | 34,354 | 34,592 |
| Casket, Vault, Marker | \$6,686 | \$6,819 | \$6,956 | \$7,095 | \$7,237 |
| Total Cost | \$224,683,014 | \$230,906,351 | \$237,254,765 | \$243,728,348 | \$250,327,018 |
| Cremations | 12,748 | 12,524 | 12,298 | 12,070 | 11,840 |
| Casket and Marker | \$1,300 | \$1,326 | \$1,353 | \$1,380 | \$1,407 |
| Total Cost | \$16,571,980 | \$16,606,811 | \$16,633,473 | \$16,651,645 | \$16,661,001 |
| Burial and Cremation | \$241,254,994 | \$247,513,162 | \$253,888,237 | \$260,379,992 | \$266,988,019 |
| GF Revenue Decrease | (\$12,062,750) | (\$12,375,658) | (\$12,694,412) | (\$13,019,000) | (\$13,349,401) |

Small Business Effect: According to the 1997 Economic Census, there are approximately 199 businesses in Maryland that are involved in funeral services (funeral homes or other funeral services) and another 108 that are either cemeteries or crematoriums. The economic census indicates that these businesses had approximately \$162.6 million in receipts in 1997. Crematoriums and cemeteries had approximately \$76 million in receipts. Under the bill, small businesses that purchase caskets and coffins for resale would not have to pay the sales tax on these purchases.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Federated Funeral Home Directors of America, Department of Legislative Services

Fiscal Note History: First Reader - January 19, 2005
mp/hlb

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