

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

House Bill 891 (Delegate Jennings, *et al.*)
 Ways and Means

Sales and Use Tax Revenues - Equine Feed Supplements and Supplies

This bill requires the Comptroller to distribute the State sales and use tax revenues collected from the sale of equine feed supplements and supplies as follows: 75% to the Maryland-Bred Race Fund and 25% to the Maryland Standardbred Race Fund. The bill also establishes an Equine Use Committee, which must determine the products to be categorized as equine feed supplements and supplies for the purposes of the State sales and use tax distribution. Vendors are required to separately collect and remit the State sales and use tax collected on the sale of equine feed supplements and supplies to the Comptroller. The Comptroller is required to administer a grant program for vendors who lack the equipment to account electronically for the differences in categories of sales and who seek to purchase the necessary equipment. The grant award per vendor cannot exceed \$2,500.

Fiscal Summary

State Effect: General fund revenues could decrease by a significant amount beginning in FY 2008, and special fund revenues could increase by a corresponding amount. General fund expenditures could increase by approximately \$425,000 in FY 2007 only for the grant program and programming costs.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	\$0	(-)	(-)	(-)	(-)
SF Revenue	0	-	-	-	-
GF Expenditure	425,000	0	0	0	0
Net Effect	(\$425,000)	\$0	\$0	\$0	\$0

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

Local Effect: None.

Small Business Effect: Minimal. It is assumed that the grant program would cover the costs of purchasing the necessary equipment to collect and remit the State sales and use tax as required.

Analysis

Current Law: The State sales and use tax is 5%. The State sales and use tax does not apply to a sale of the following items for an agricultural purpose: (1) livestock; (2) feed or bedding for livestock; (3) seed, fertilizer, fungicide, herbicide, or insecticide; (4) baler twine or wire; (5) fuel used in farm equipment or a farm tractor; and (6) if bought by a farmer: a container to transport farm products produced by the farmer, a specified farm vehicle, a milking machine when used in farming, fabrication, processing or service, by sawmill, or wood products for farm use in which the farmer retains title, and specified farm equipment.

Feed sold for horses used for breeding race horses is considered to be feed sold for an agricultural purpose. Race horses are not considered livestock.

Background: The 2002 Maryland Equine Census indicates: (1) that approximately 685,000 acres of land in Maryland are devoted to the horse industry; (2) equine-related assets totaled \$5.2 billion; (3) there are 20,200 horse farms and 87,000 horses in Maryland; (4) Maryland horses are worth \$680 million; and (5) individuals involved in the horse industry own \$3.9 billion worth of land, fencing, and facilities.

State Revenues: The bill requires the Equine Use Committee to determine the products to be categorized as equine feed supplements and supplies. Due to the bill's October 1, 2006 effective date, it is assumed that the distribution of sales tax revenues for eligible products would therefore begin in fiscal 2008. At this time it is not known what types of products will be determined to be classified as equine feed supplements and supplies by the Equine Use Committee. Therefore, the general fund revenue decrease and the corresponding special fund revenue increase associated with the classification cannot be reliably estimated.

The *Tax Expenditure Report* for fiscal 2006 indicates that the current exemption for sales for agricultural purposes or of agricultural products will reduce general fund revenue by approximately \$67.8 million in fiscal 2006, of which approximately \$19.1 million is attributed to the exemption for feed. As a result, it is estimated that the distribution of sales tax revenues under the bill could result in a significant general fund revenue decrease and corresponding special fund revenue increase beginning in fiscal 2008.

State Expenditures: The Comptroller is required to administer a grant program of up to \$2,500 per vendor for vendors who lack the equipment to account electronically for the differences in categories of sales and seek to purchase the necessary equipment.

The Maryland Department of Agriculture advises that there are approximately 150 businesses that sell equine feed, concentrates and supplements, and horse equipment services. Assuming that all these vendors need assistance in purchasing equipment necessary for collecting and remitting the sales tax, general fund expenditures could increase by \$375,000. It is assumed that this would be a one-time expenditure occurring in fiscal 2007. To the extent there are more vendors than estimated, the general fund expenditure would be greater. In addition, if other vendors begin selling feed supplements and supplies in future years and require financial assistance, expenditure increases would occur in those years as well.

The Comptroller's Office advises that it would incur costs of approximately \$50,000 to make programming changes to the SMART system and other systems for the processing of the required payments and distributions.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office; Department of Labor, Licensing, and Regulation; Maryland Department of Agriculture; Department of Legislative Services

Fiscal Note History: First Reader - March 10, 2006
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